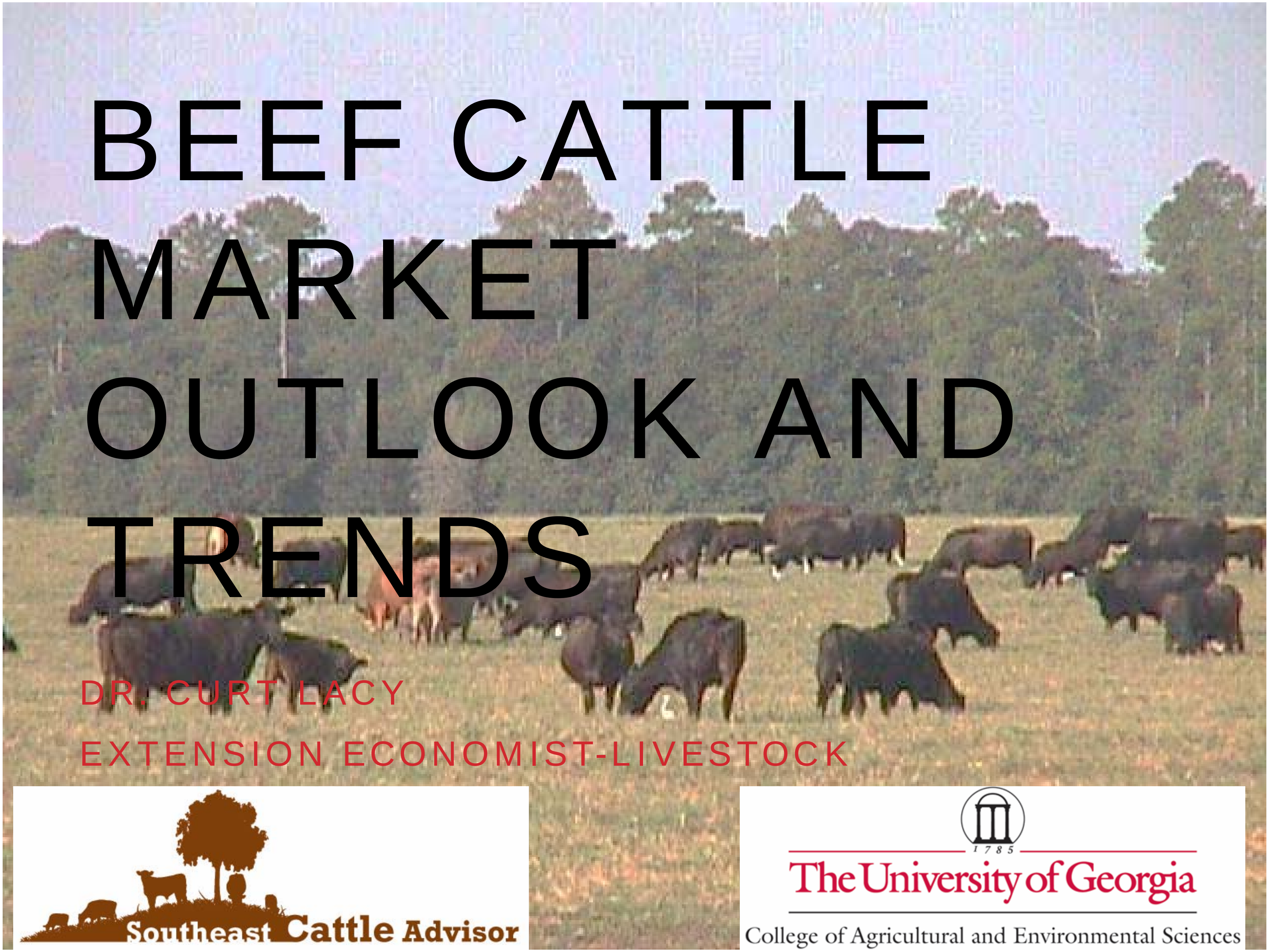


BEEF CATTLE MARKET OUTLOOK AND TRENDS

DR. CURT LACY
EXTENSION ECONOMIST-LIVESTOCK

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

OUTLINE

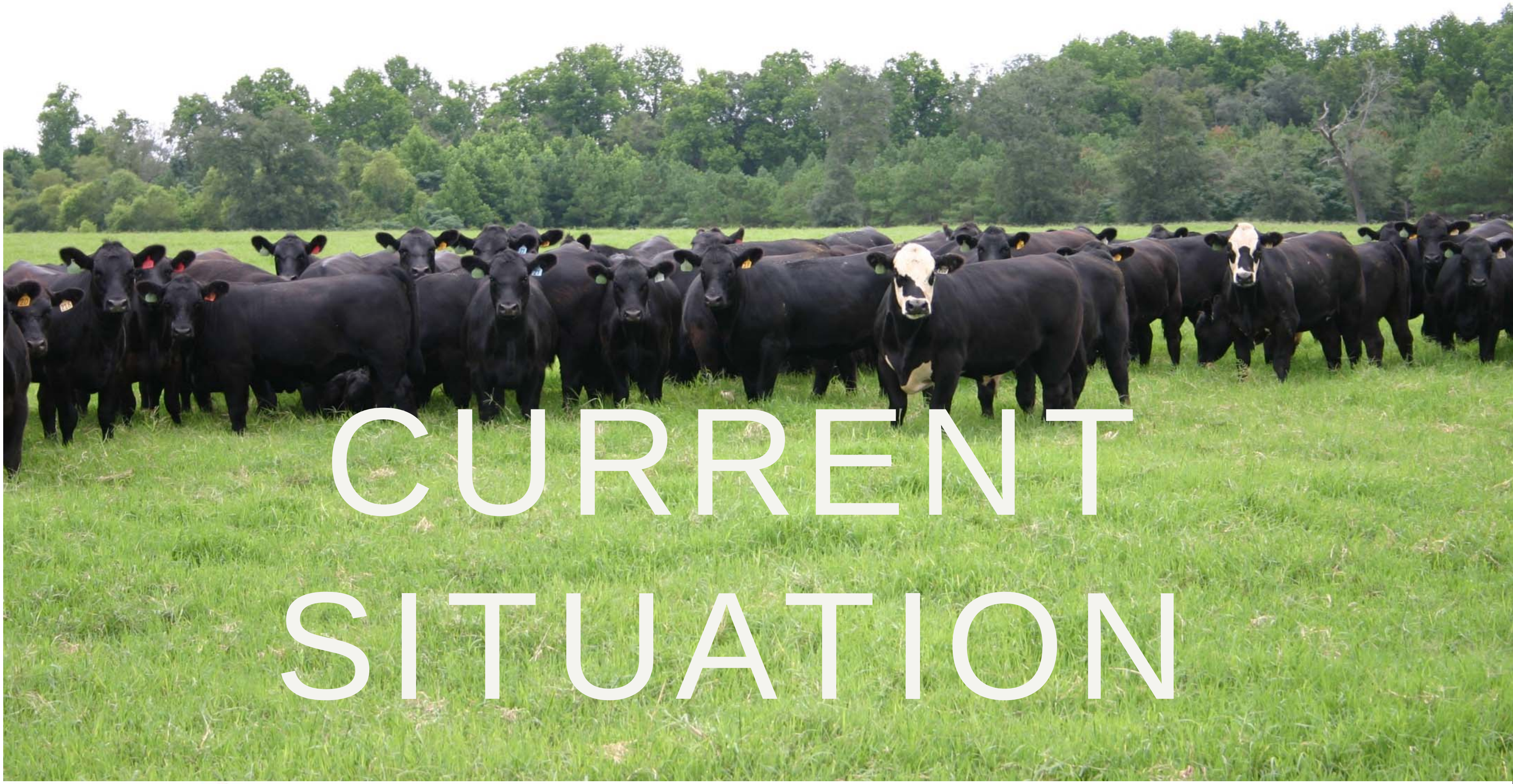
Current Situation

Projections for 2011-2012

Things to watch

Market Alternatives

WHERE ARE WE AND HOW DID WE GET HERE?



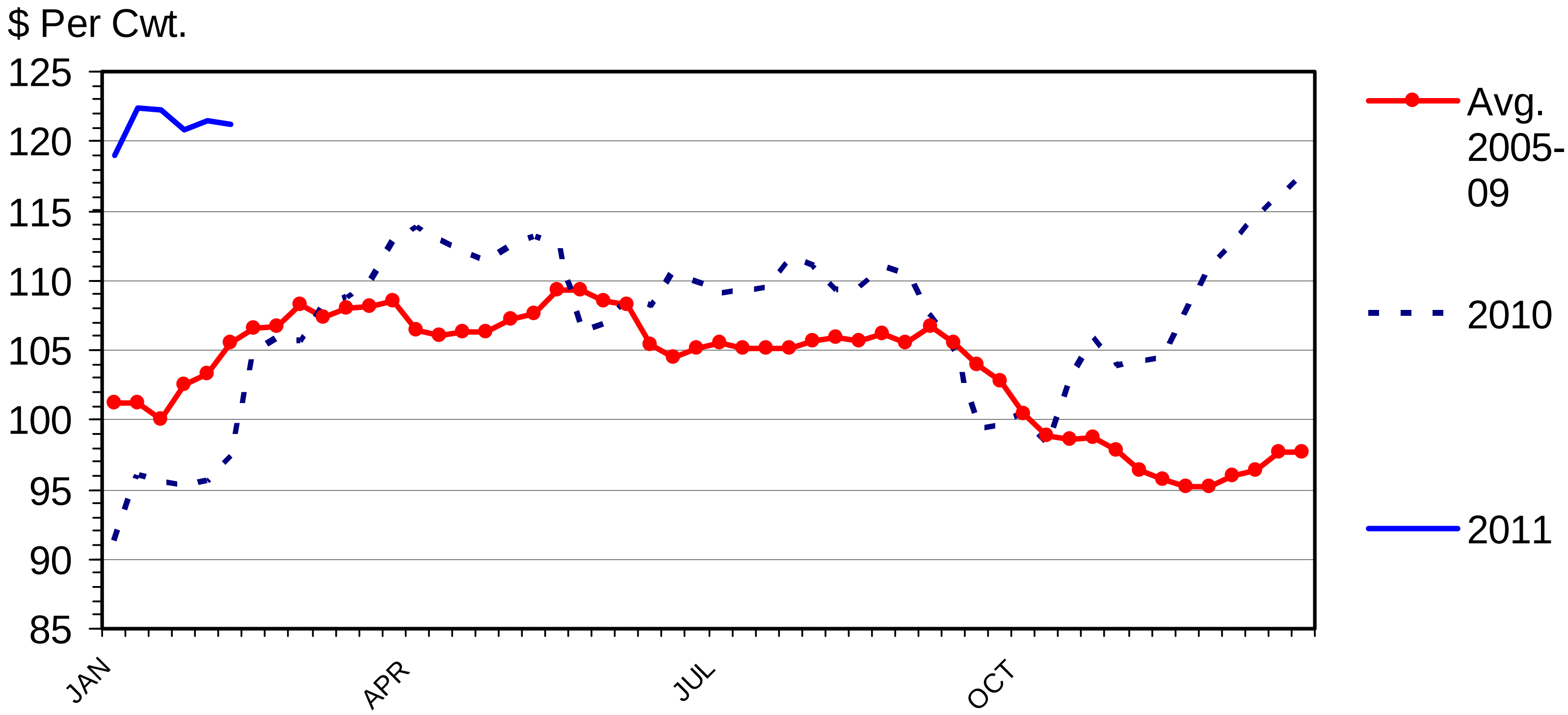
CURRENT SITUATION

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

MED. & LRG. #1 & 2 STEER CALF PRICES

500-600 Pounds, Georgia, Weekly



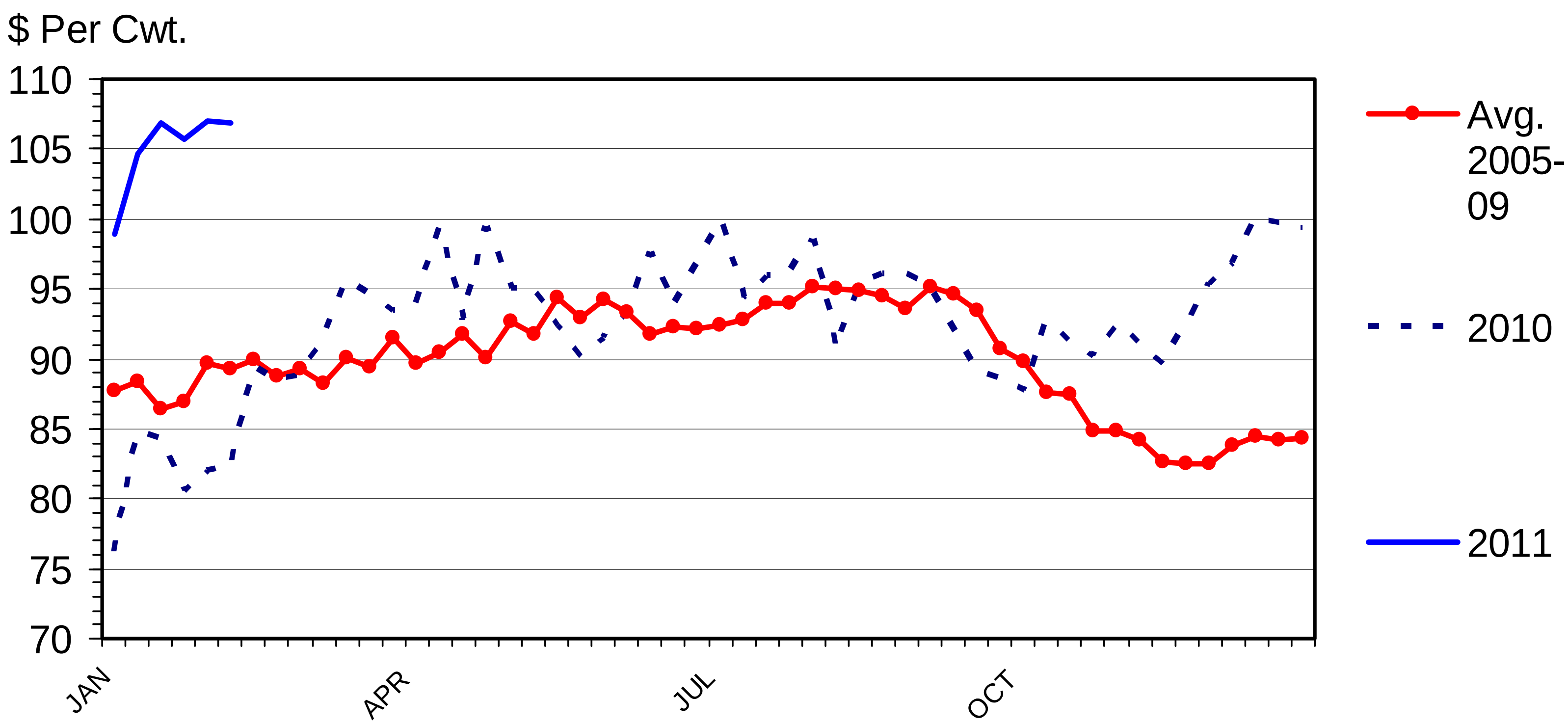
Livestock Marketing Information Center

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

02/14/11

MED. & LRG. #1 & 2 FEEDER STEER PRICES

700-800 Pounds, Georgia, Weekly



Livestock Marketing Information Center

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

02/14/11

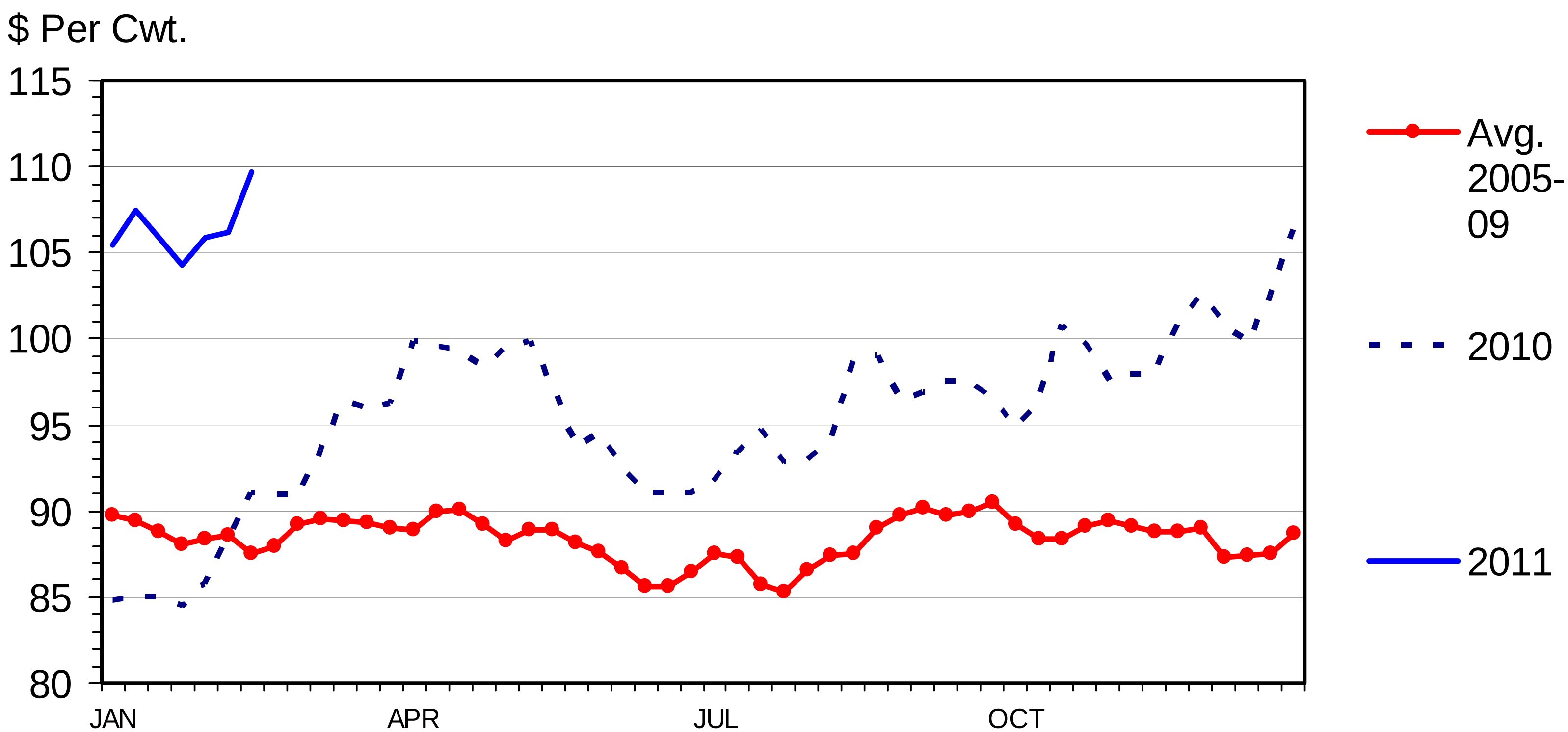
Southeast Cattle Advisor

The University of Georgia

College of Agricultural and Environmental Sciences

SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly



Livestock Marketing Information Center

Data Source: USDA-AMS

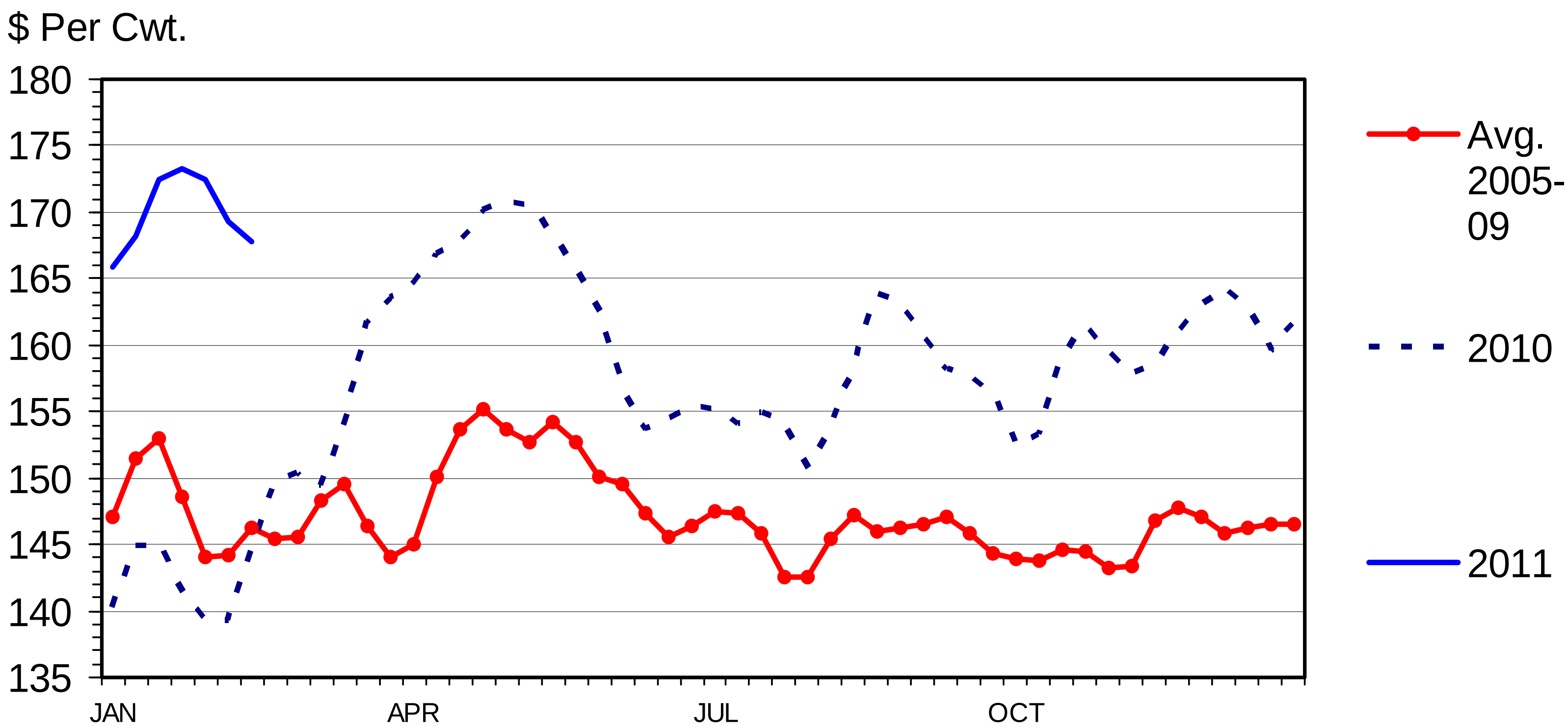
Southeast Cattle Advisor

The University of Georgia

College of Agricultural and Environmental Sciences

BOXED BEEF CUTOUT VALUE

Choice 600-900 Lbs. Carcass, Weekly



Livestock Marketing Information Center

Data Source: USDA-AMS

C-P-62
02/22/11

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

WHAT CAN WE EXPECT THIS YEAR AND NEXT?

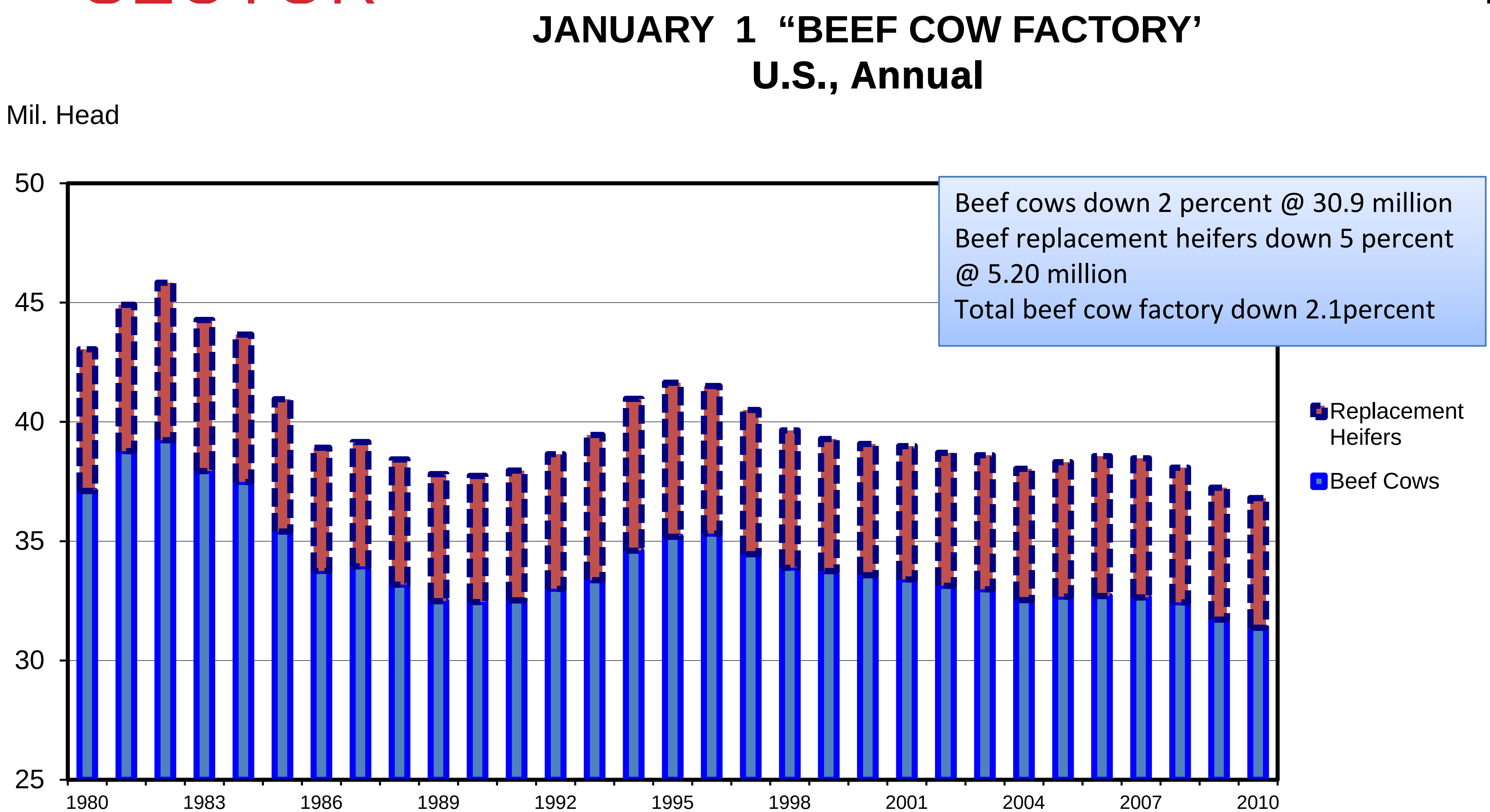
OUTLOOK FOR 2011

MEAT SUPPLIES WILL BE DOWN SLIGHTLY IN 2011

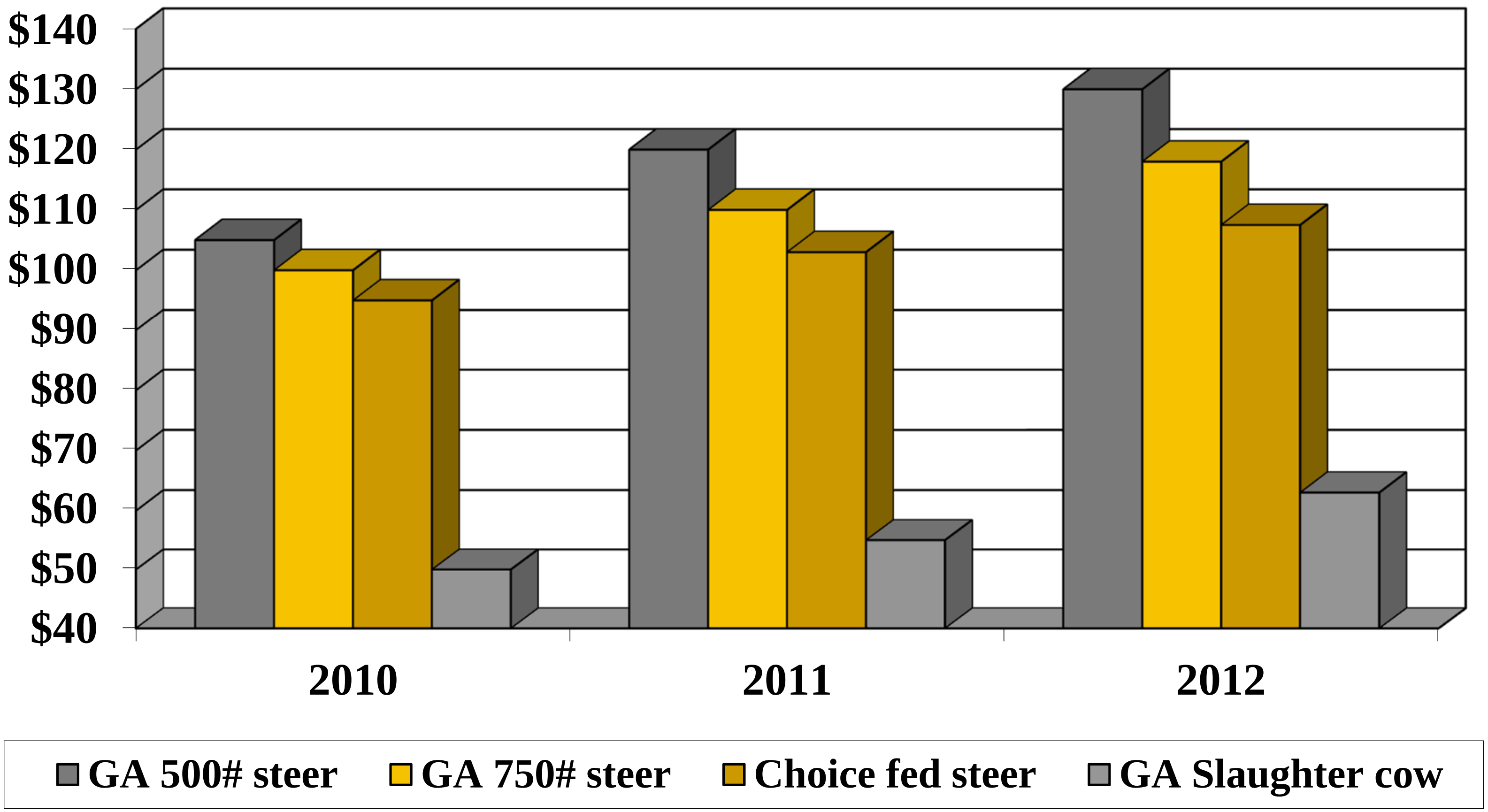
Commodity	2009	2010	2011 Projected	10 vs 09	11 vs 10
	BILLION POUNDS			PERCENT CHANGE	
Beef	25.96	26.31	25.92	1.33%	-1.50%
Pork	22.99	22.44	22.53	-2.45%	0.40%
Total Red Meat*	**49.27**	**49.05**	**48.73**	**-0.45%**	**-0.65%**
Broilers	35.51	36.85	37.30	3.64%	1.21%
Total Poultry**	**41.67**	**42.99**	**43.43**	**3.07%**	**1.01%**
Total RedMeat & Poultry	**90.95**	**92.04**	**92.16**	**1.18%**	**0.13%**

Source: USDA-WASDE, February 2011 Report

DECLINING COW NUMBERS REFLECT LACK OF PROFITABILITY IN THE SECTOR



PROJECTED PRICES 2011 AND BEYOND



Source: USDA, LMIC and UGA

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

PROJECTED PROFITS FOR 2011

Not very pretty

Fertilizer and feed costs will be the differences in profits (or lack of).

Longer-term producers are going to have look at increasing forage/less feeding.

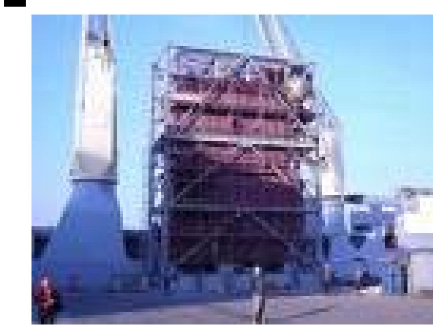
	North Georgia	South Georgia
Variable Costs ($/cow)	$497	$466
Variable Costs ($/Cwt.)	$117	$105
Total Costs ($/cow)	$730	$641
Total Costs ($/Cwt.)	$172	$145

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

SINCE YOU DON'T HAVE ENOUGH TO WORRY ABOUT

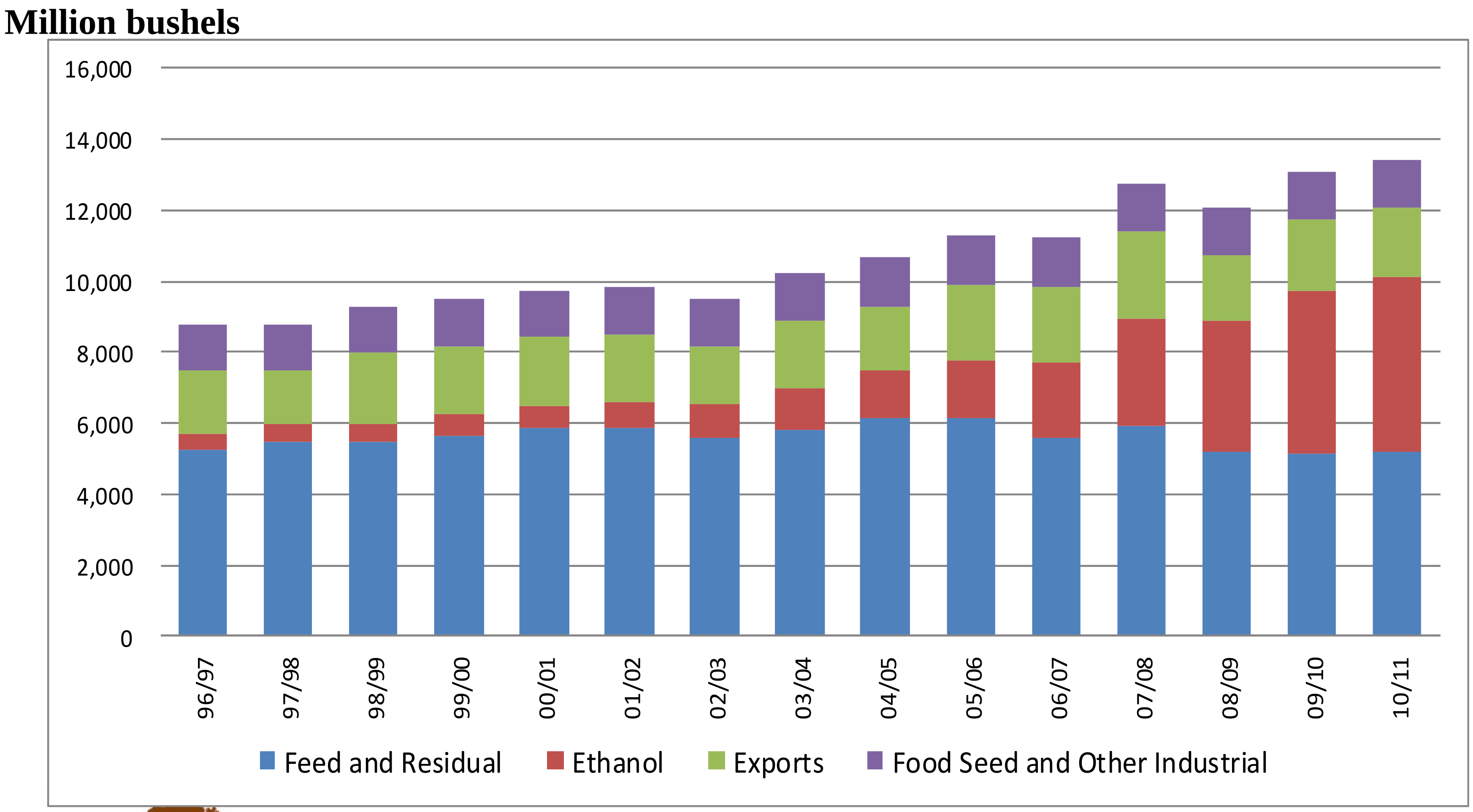
OTHER ITEMS TO WATCH



Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

MORE CORN USED FOR ETHANOL AS ENERGY ACT MANDATES

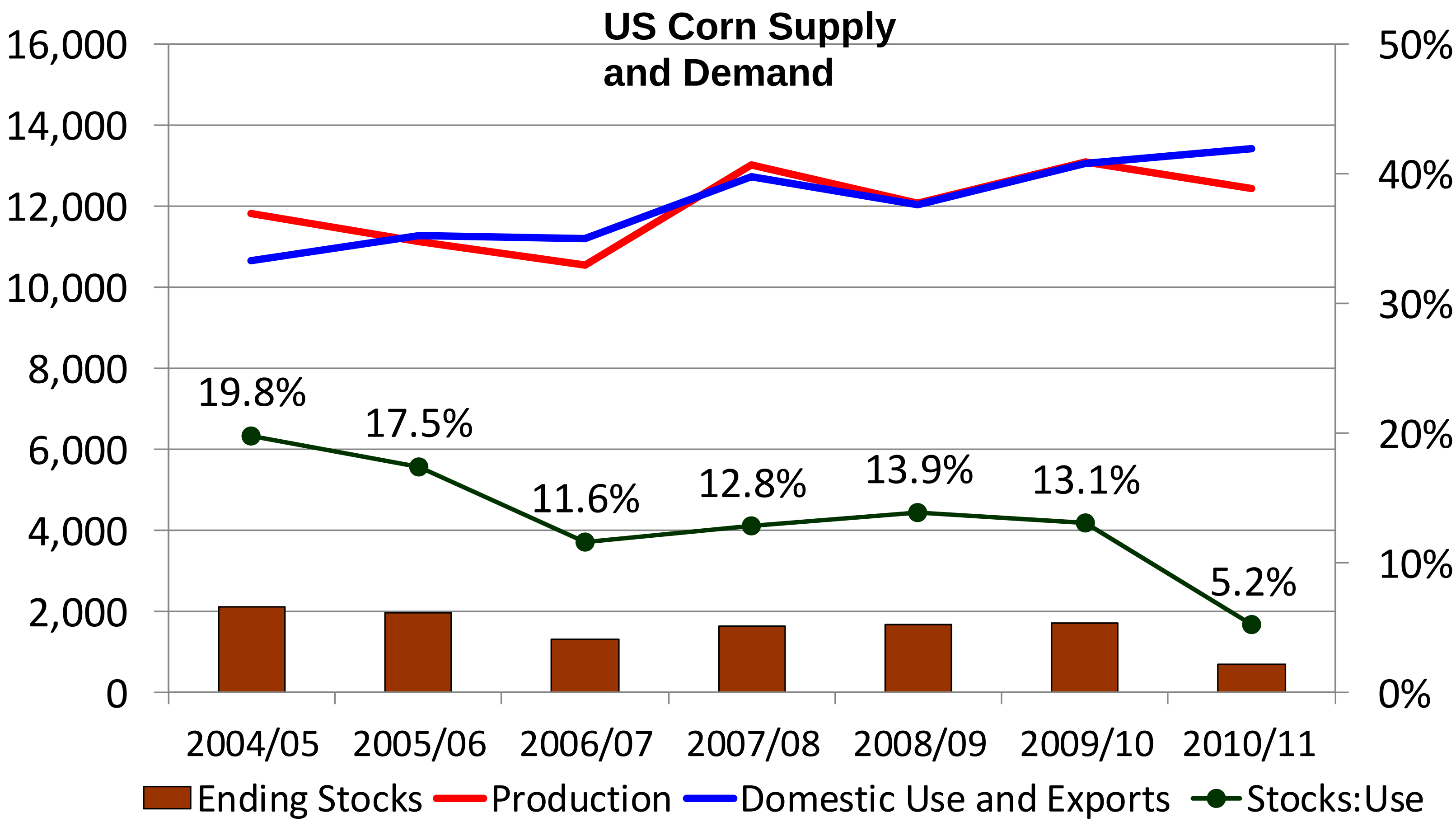


Source: USDA, 1/12/2011

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

Tight Stocks Since '07 in Feed Crops Despite Large Crops



Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

OTHER ITEMS

- **Food Safety Act**
- **Antibiotic use in livestock**
- **Animal welfare**
- **Local/source-verified**

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

SUMMARY

Tight supplies and increasing demand will be supportive of prices.

Creeping inflation (fuel and food) →implications for demand.

Next several years should be relatively good for cattlemen-if they can stay ahead of input prices.

Several other issues such as traceability, antibiotic use and humane treatments of animals will become more important but probably not more so than the demand for meat.

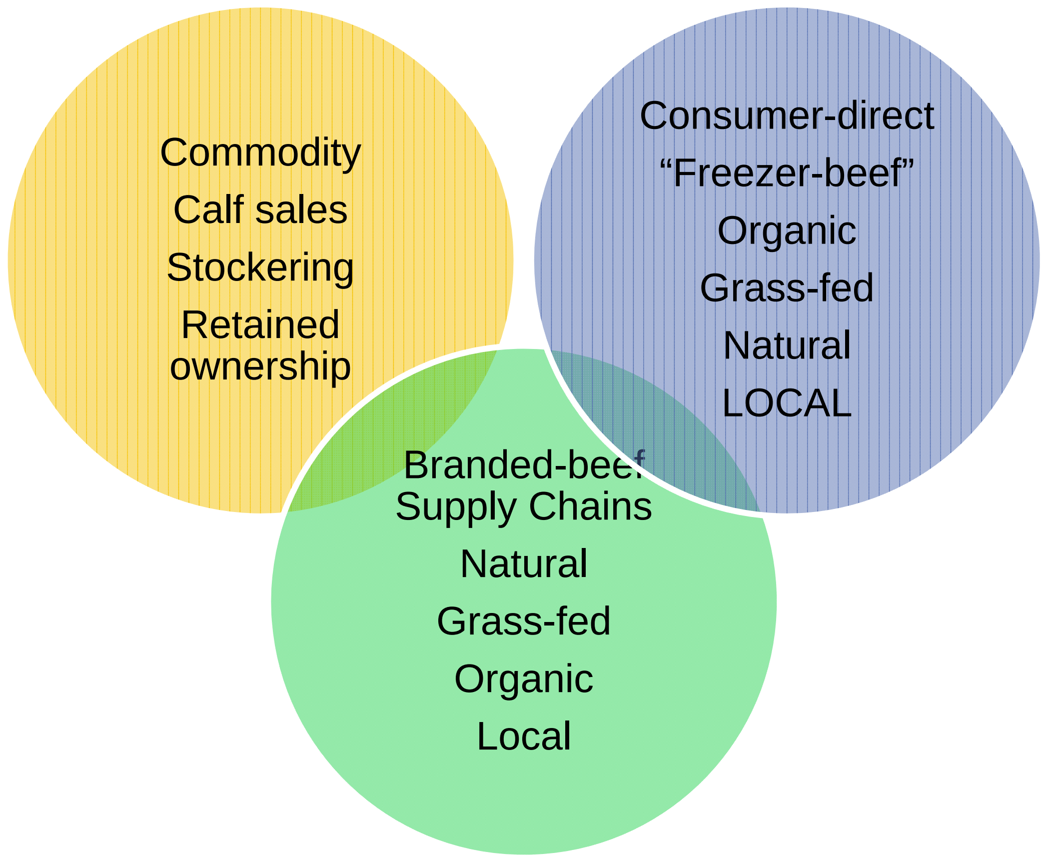
TRENDS AND POTENTIAL MARKETING ALTERNATIVES

MARKETING OPPORTUNITIES

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

AN OVERVIEW OF BEEF MARKETING ALTERNATIVES



Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

BASICS FOR ANY MARKETING ALTERNATIVE QUESTIONS

Are you making money with your current system?

How much is the potential additional revenue?

What will it cost?

What are the risks?

MAKING THE STOCKERING/BACKGROUNDING/ RETAINED OWNERSHIP DECISION

ITEM	$/Head
Initial Value of Calf (Price X Sales Weight)	
- Marketing Costs	
Net Beginning Value (NBV)	
Stockering Costs	
Procurement (order buyer, trucking, etc)	
Pasture (seed, fertilizer, fuel, etc.)	
Feed	
Hay	
Vet & mineral (implants, vaccines, etc.)	
Repairs	
Additional labor	
Land rent	
Death Loss	
Auction and Hauling Costs	
TOTAL STOCKERING COSTS (TSC)	
Profits (NBV-TSC)	

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

TIMES AVERAGE PRICES WERE IN THE TOP 1/3 FOR THE YEAR, 2005-2009

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
500-600 lbs. Str.	1/5	2/5	2/5	3/5	3/5	2/5	1/5	2/5	0/5	0/5	0/5	0/5
700-800 Lbs Str.	1/5	2/5	0/5	1/5	2/5	0/5	3/5	4/5	1/5	0/5	0/5	1/5

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

TIMES AVERAGE PRICES WERE IN THE BOTTOM1/3 FOR THE YEAR, 2005-2009

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
500-600 lbs. Str.	3/5	0/5	0/5	0/5	0/5	0/5	0/5	0/5	0/5	4/5	5/5	3/5
700-800 Lbs Str.	2/5	2/5	1/5	1/5	0/5	0/5	0/5	0/5	0/5	3/5	4/5	3/5

TWO BASIC MARKETS AND THEIR ALTERNATIVES

COMMODITY

- **Typically cost-based**
- **Favors low-cost producers**
- **Ready-made market**
- **Beef examples**
  - - Sell @ weaning
  - - Stockering
  - - Retained Ownership

NICHE OR VALUE-ADDED

- **Allows producers to receive more of the true value of their animals**
- **Higher-margin/lower volume proposition**
- **Often requires market development**
- **Beef examples usually involve marketing directly to consumers**
  - Locally-raised
  - Natural
  - Grass-fed
  - Organic

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

BASIC TRENDS

Increasing numbers of consumers want to know more about where their food comes from.

- What was it fed
- How was it treated?
- Who raised it?

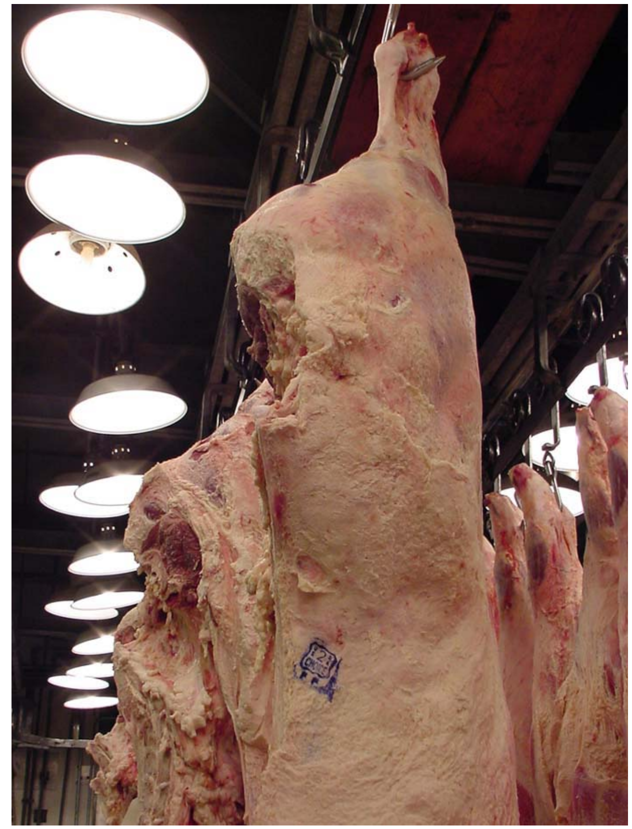
As baby-boomers get older, they are more interested in leaner cuts of meat (but with taste).

Sustainable is coming to mean more than just “no chemicals or pesticides.”

Even as the economy improves there are still millions of Americans with very tight budgets

BRANDED AND ALTERNATIVE MARKET COORDINATION

VALUE-ADDED BEEF SYSTEMS

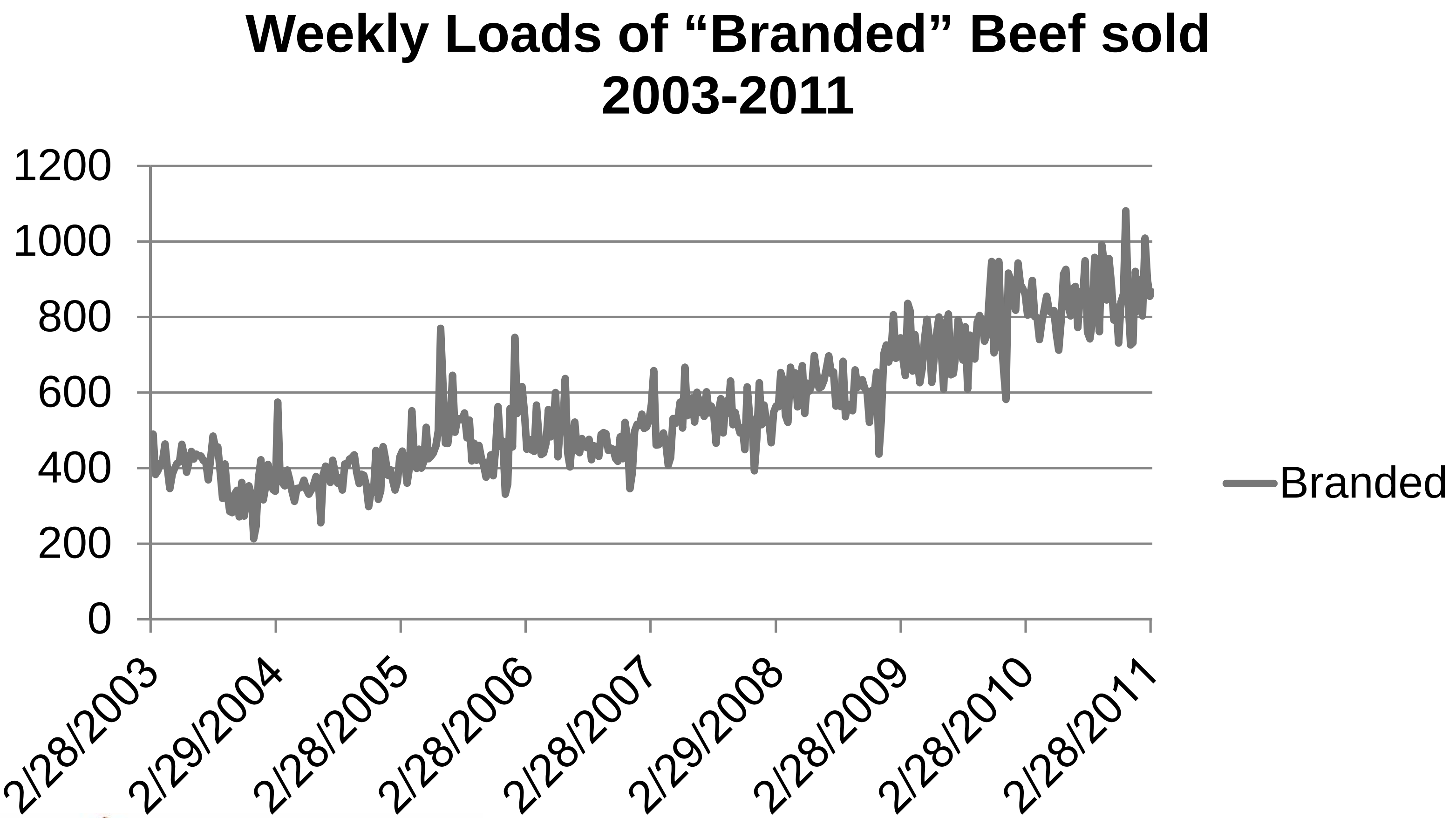


Southeast Cattle Advisor

The University of Georgia

College of Agricultural and Environmental Sciences

BRANDED BEEF PRODUCT SALES CONTINUE TO INCREASE

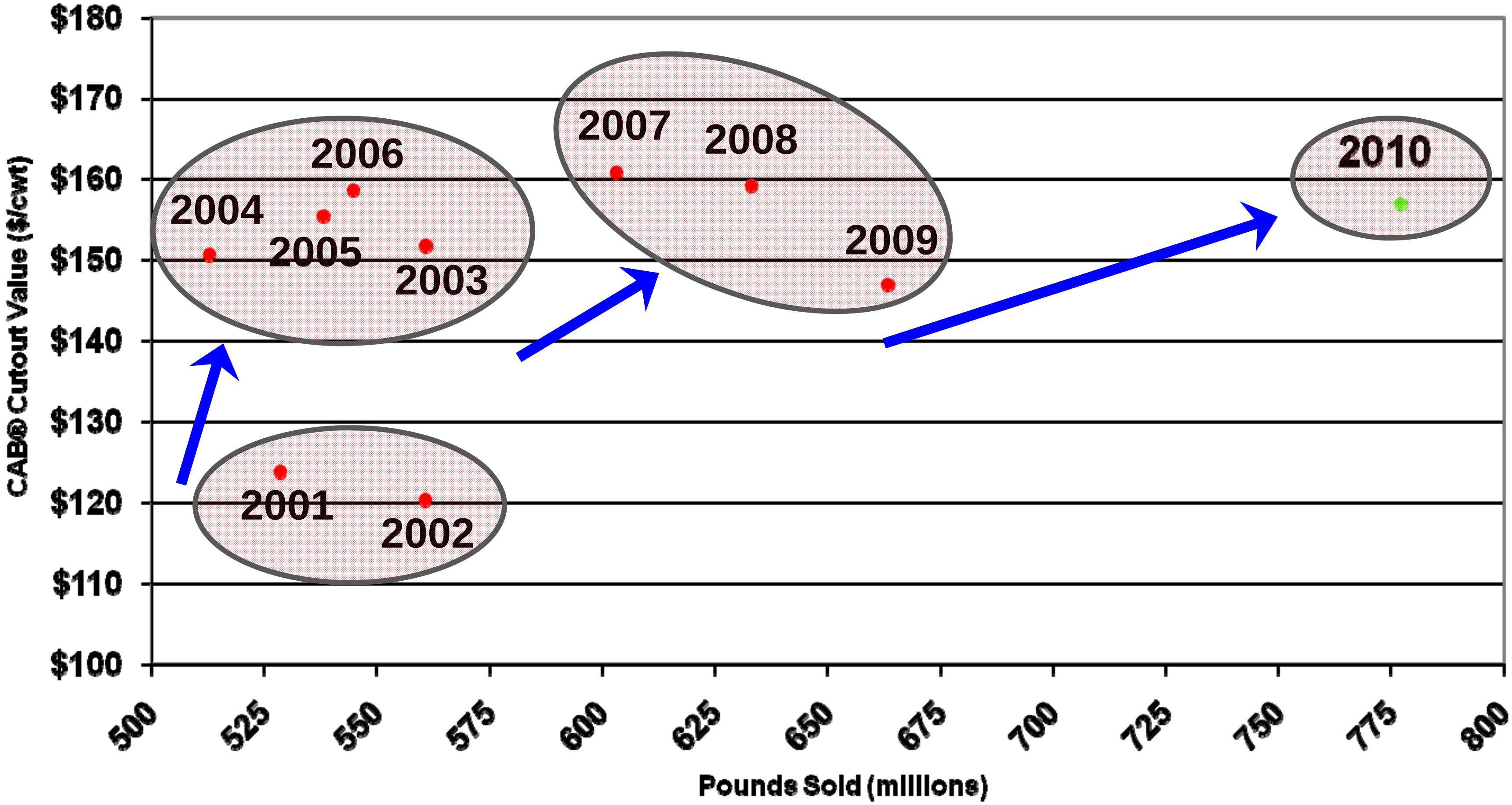


Southeast Cattle Advisor

Source: USDA-AMS, compiled by LMIC
Branded = Upper 2/3 choice

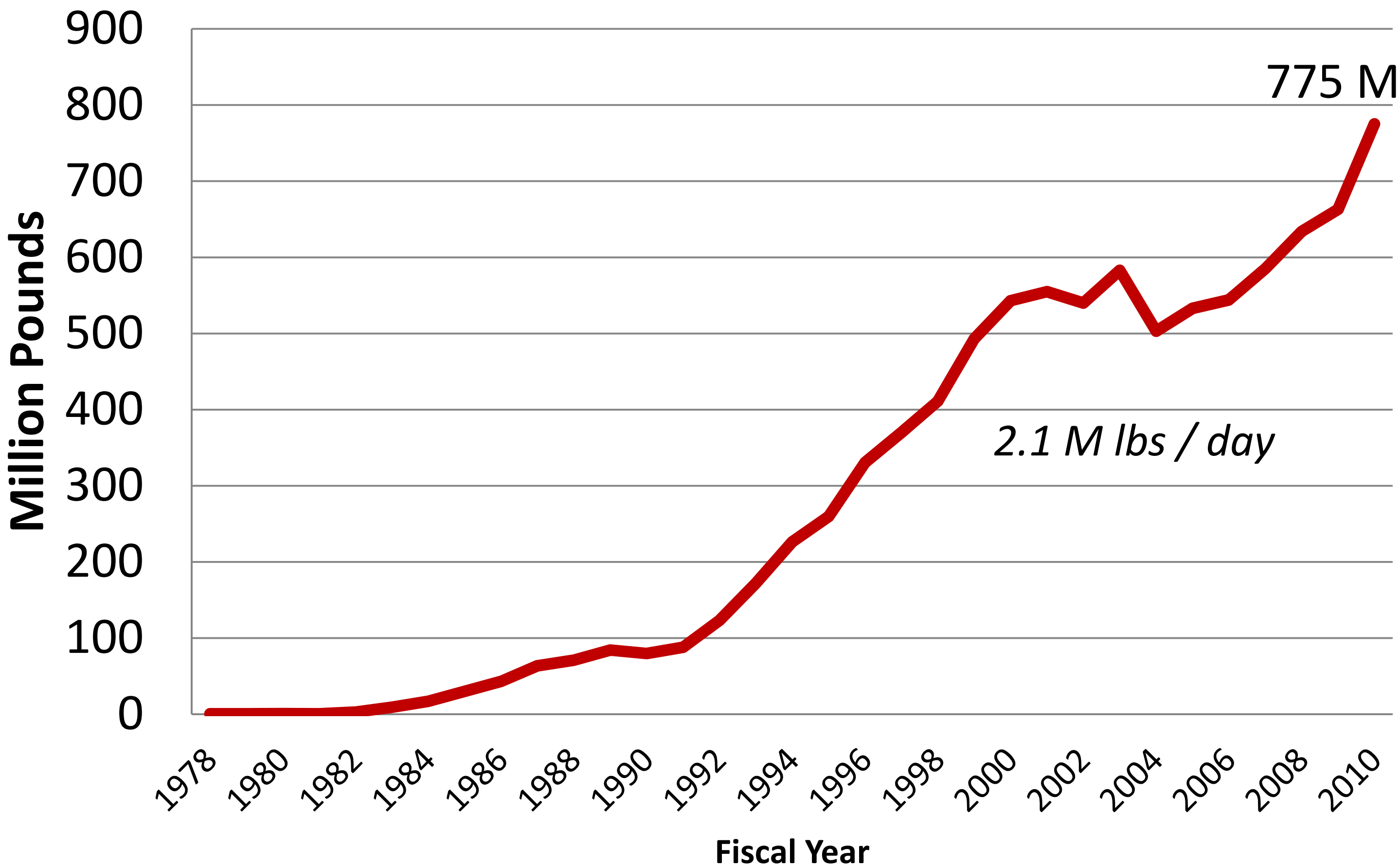
The University of Georgia
College of Agricultural and Environmental Sciences

CERTIFIED ANGUS BEEF® BRAND DEMAND



Source: Urner Barry and CAB LLC

Annual Sales of the *Certified Angus Beef* ® Brand



Source: CAB LLC

VALUE-ADDED SYSTEMS

Typically associated with a brand.

Can be for either conventional or alternatively produced beef.

Allows producers to benefit from improved genetics and management.

Very reliant on auditable and verifiable records.

Most require a Premise ID and BQA certification. May also require additional certifications or affidavits.

Can be a "happy-medium" between commodity beef and direct-marketing.

DIRECT-MARKETING, GRASS-FED, NATURAL AND ORGANIC

ALTERNATIVE MARKETS

Southeast Cattle Advisor

The University of Georgia

College of Agricultural and Environmental Sciences

NOTES ON ALTERNATIVE MARKETS

Not a lot of published data on many of the alternative markets (natural, grass-fed, locally-produced, etc.)

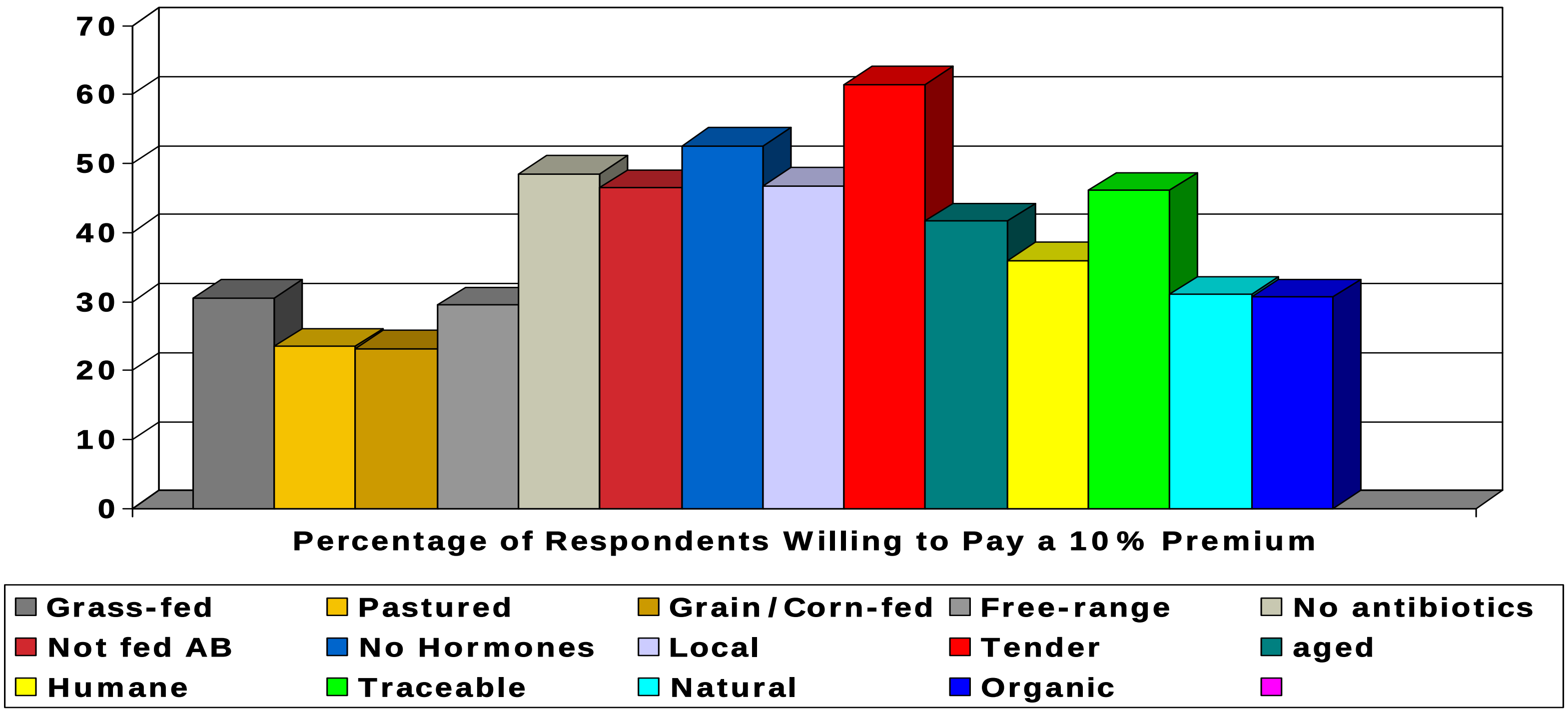
Some data on natural and organic.

Less solid numbers on grass-fed.

Overall consensus is the locally-produced market is growing.

Big concerns are antibiotics, hormones and traceability.

CONSUMER'S STATED WTP FOR CERTAIN ATTRIBUTES (SURVEY RESULTS)

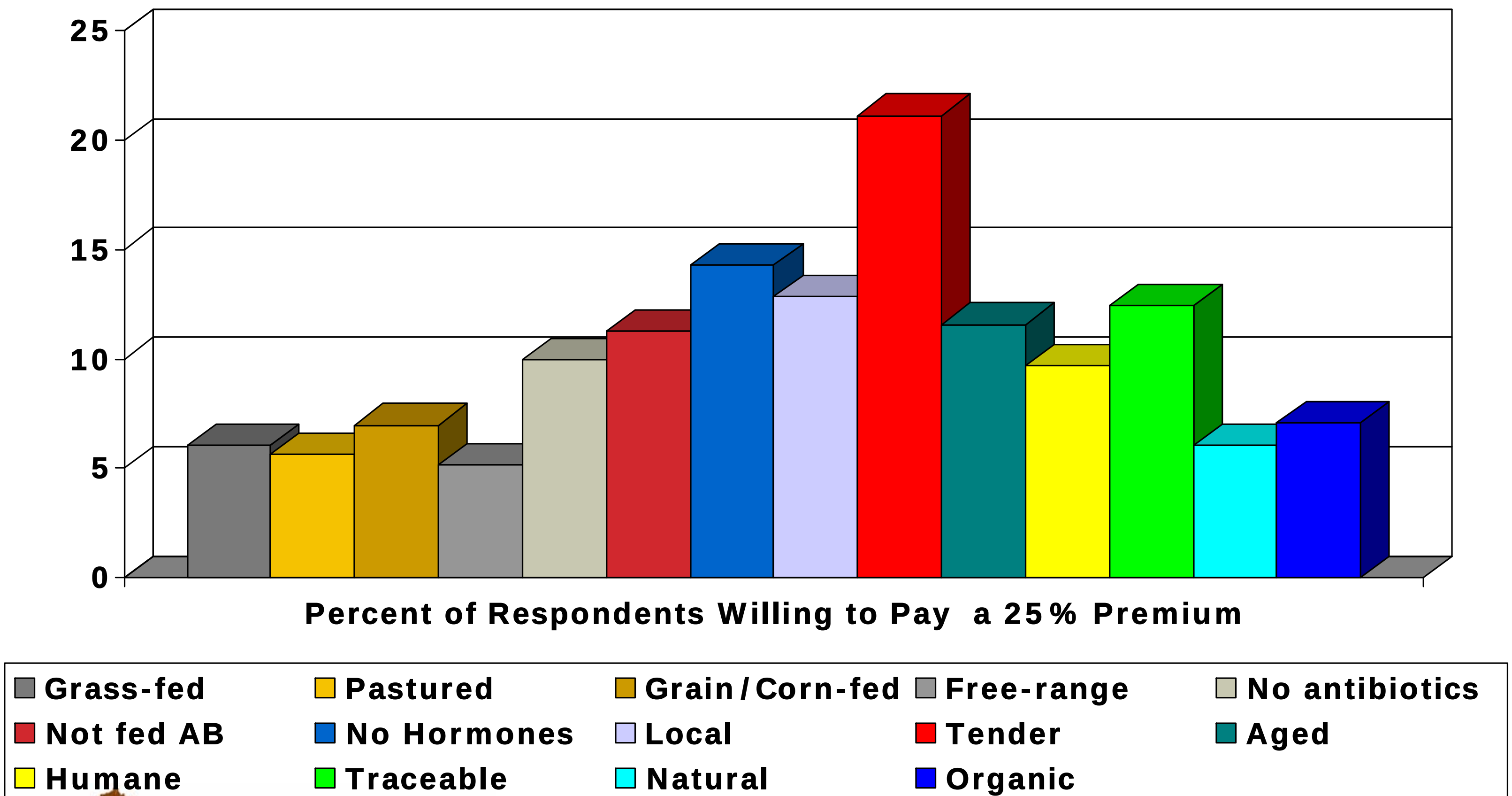


Source: Lacy, Clark, Umberger and Wolfe, 2006

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

CONSUMER'S STATED WTP FOR CERTAIN ATTRIBUTES (SURVEY RESULTS)

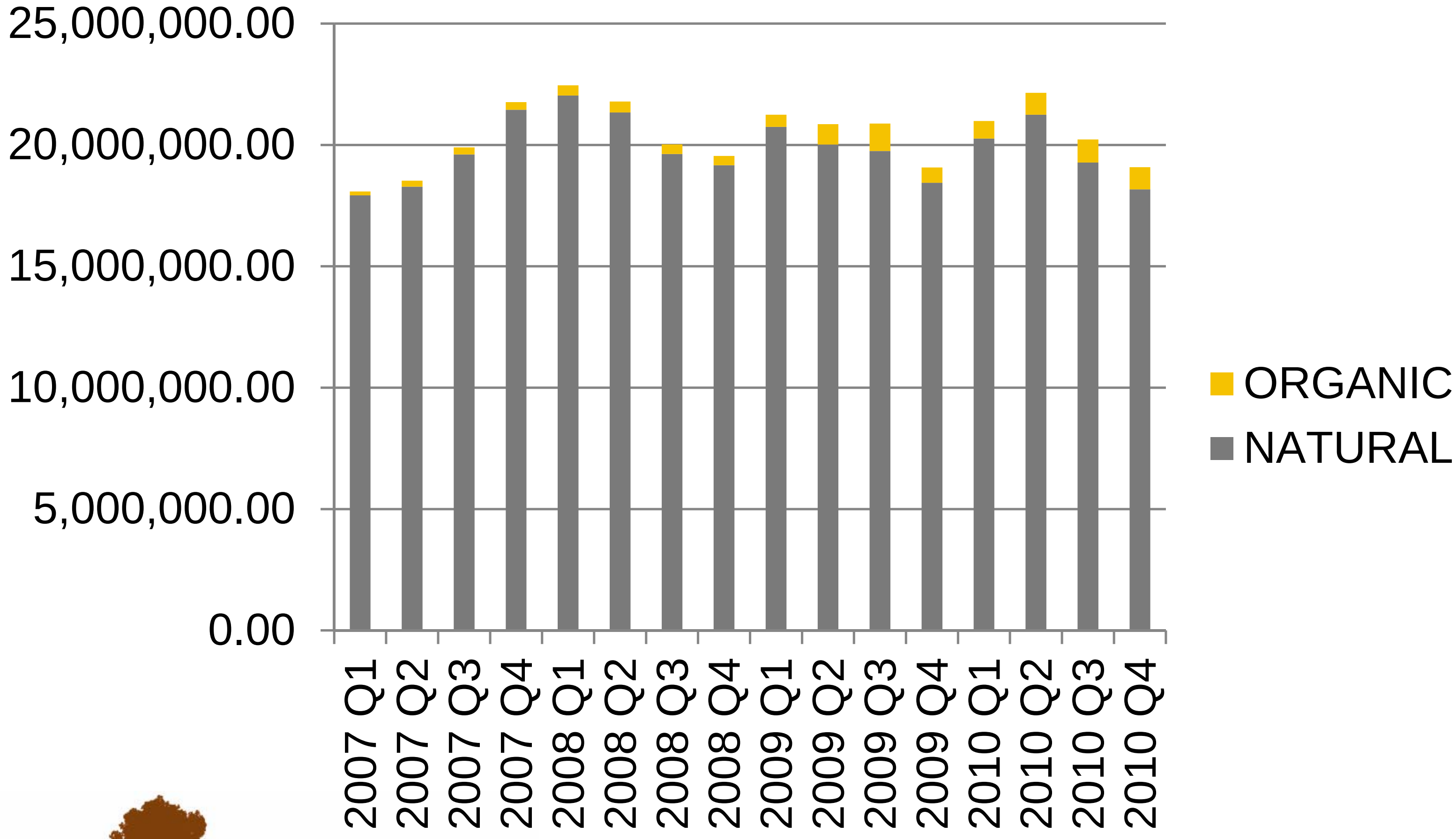


Source: Lacy, Clark, Umberger and Wolfe, 2006

Southeast Cattle Advisor

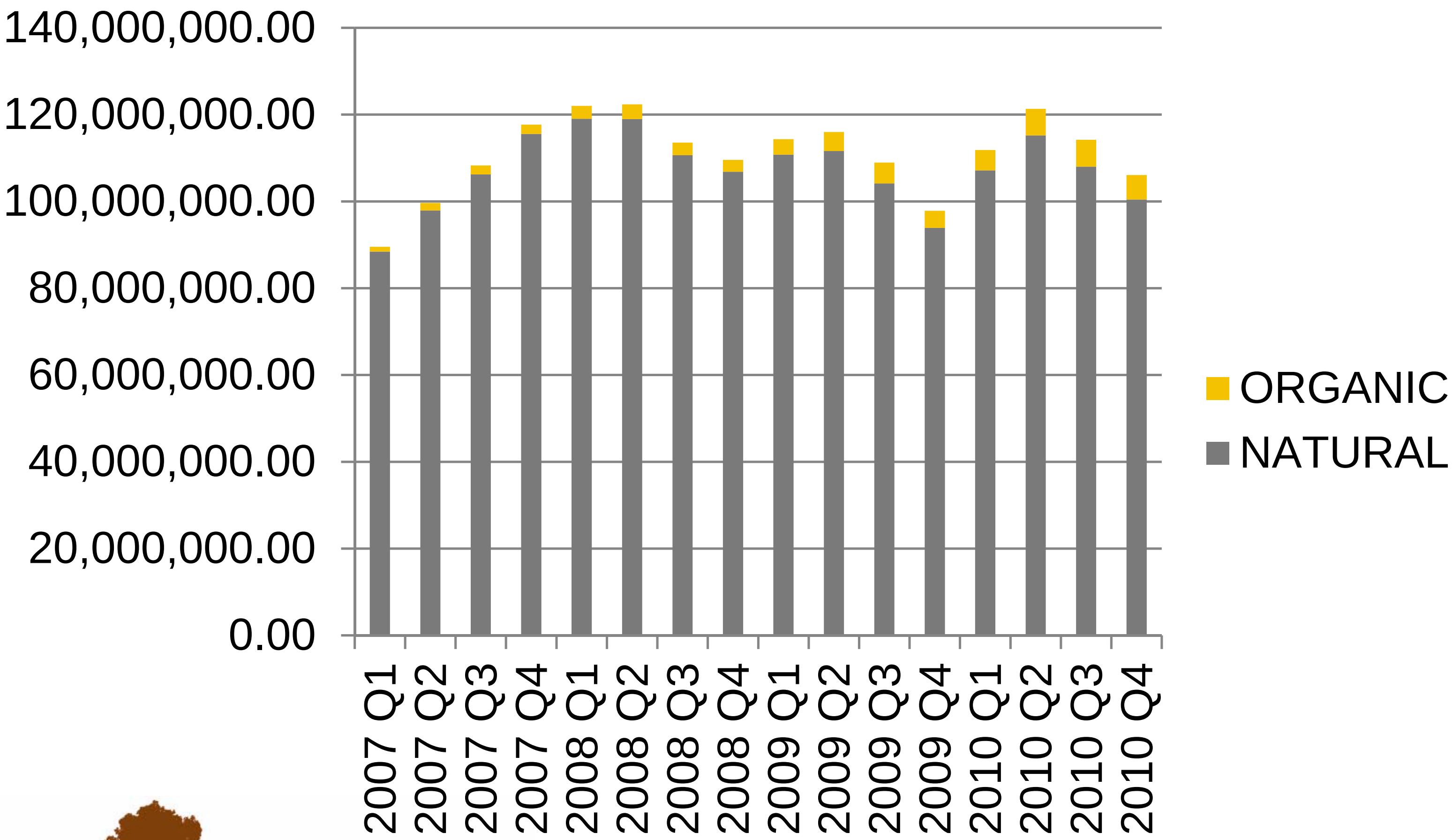
The University of Georgia
College of Agricultural and Environmental Sciences

POUNDS OF NATURAL AND ORGANIC BEEF SOLD FROM 2007-2010



Source: NCBA

DOLLARS OF NATURAL AND ORGANIC BEEF SOLD FROM 2007-2010



Source: NCBA

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

SUMMARY ON ALTERNATIVE MARKETS

Sales of natural/organic beef are consistent at about 2.5%-3.0% of total beef sales.

Does not include sales of grass-fed beef.

Grass-fed beef continues to gain interest but is still roughly the size of the organic/natural market.

Anecdotal data suggests a higher demand for locally-produced, naturally-raised beef.

All of these markets require much more management (marketing and record-keeping) than a conventional system.

IMPLICATIONS

While organic is still popular in some circles, "Local" is quickly becoming the new code-word for sustainable.

"Local" is still not well-defined. Some interpret is as being with 50-100 miles, while others consider it anything raised in their state. Other definitions limit it to 400 miles or less.

Many locavores are discovering that it is impossible to purchase everything locally (within 50-100 miles) so regional production systems are becoming the new local.

Increasing market share, but still probably never over 10-20% of the market for the following beef products:

- Locally-raised
- All-natural grain-finished
- Pasture-finished
- Grass-fed
- Organic

SUMMARY

Tight supplies and improving demand will mean higher prices for cattle for the foreseeable future.

Value-added chains and direct-marketing offer possibilities for cattle producers.

However, they require more management and records than producing commodity cattle.

They trick is determining your particular situation and what works best for you.

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences

WWW.SECATTLEADVISOR.COM

DR. CURT LACY
EXTENSION ECONOMIST-LIVESTOCK
UNIVERSITY OF GEORGIA-TIFTON
CLACY@UGA.EDU

Southeast Cattle Advisor

The University of Georgia
College of Agricultural and Environmental Sciences