Cow Country Reporter

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Please remember to pay your dues to ensure your membership benefits continue.

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News from your CEO

A friendly reminder, if you have not paid your 2020/2021 membership dues please do so by the end of this month. Also another reminder, the deadline for CFAP assistance sign-up is August 28, 2020 (see reminder in newsletter). Contact your local Farm Service Agency today!

I hope everyone read the USDA/DOJ report we sent you via e-mail (if you are not on our email list go to CPL website and view the report) it is informative and as some would like you to believe they found no wrong doing. WRONG! This report laid out the facts and DOJ is still investigating and will prosecute any wrong doing.

August is the start of Louisiana's "fall cattle run" so I would hope you have plans to market your cattle or have already sold your calves. Remember, we need to market our calves before the "rest of the world" sells theirs in late October to December. Check with your marketing rep. Our cattle market for calves/yearlings has held up well considering everything and the cull cow market has remained strong. The fat cattle market is trying to get north of $100.00 cwt. and beef demand is still good. The feedlots are working hard to get cattle marketed and packers are slowly increasing their harvest numbers. We have had a wet July which has hampered hay harvest but has helped forage growth. As I stated in the last newsletter, CPL has signed a letter of support for the 50/14 Grassley/Tester bill which will make it mandatory for large packers to purchase 50% of their buy in the negotiated cash market. This bill will go a long way to support a viable fed-cattle market which in turn will assist the calf market in the cow/calf states. Keep those calves gaining weight and may you have a profitable harvest.

Dave Foster, CEO

CFAP assistance is available to livestock producers who have an ownership interest in eligible livestock that have suffered a five percent-or-greater price decline as a result of the COVID-19 pandemic and face additional significant costs in marketing their inventories due to unexpected surplus and disrupted markets. USDA is accepting applications now through August 28, 2020. Learn more about CFAP and eligible livestock by contacting your local FSA Office or at farmers.gov/cfap.

Industry Snapshot: USDA Cattle Inventory and Cattle on Feed Reports

By: Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist

Last Friday USDA released the July Cattle on Feed report. Feedlot placements in June were 1.8 million head, 102.1 percent of last year. June marketings were 1.97 million head, up 1.3 percent year over year. Both placements and marketings were close to pre-report expectations and no major market reaction is expected. The July 1 on-feed inventory was 11.44 million head, very close to year ago levels. The report also provided quarterly information about steer and heifer inventories in feedlots on July 1. Steers were fractionally higher than last year while heifers on feed were down 1.5 percent year over year.

The industry is looking for a couple of pieces of information from this report. The first is an indication of the current status of feedlots relative to the backlog of fed cattle that developed in April and May. The calculated estimates of cattle on feed over 120 days is still very large compared to last year but the difference has decreased by some 160,000 head since May. It appears that the backlog is decreasing but a sizable number of cattle remain to be cleaned up before feedlots will be current. In the January – April period, feedlot placements were down just over million head year over year.

The cattle on feed report may also indicate some regional drought impacts. June placements were large year over year in both Texas and Colorado and

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both states showed an increase in placements under 700 pounds. In fact, the 8.8 percent year over year increase in placements under 700 pounds in the report is entirely accounted for by increased lightweight placements in Texas and Colorado.

USDA also released the July Cattle report providing a mid-year indication of cattle inventories and the 2020 calf crop. The report does not show any dramatic changes in the overall trajectory of the cattle industry at this point in the year. Interpretation of the numbers is a bit challenging because the continuing backlog of fed cattle must be accounted for in the numbers. The overall cattle and calves inventory was fractionally up from last year but likely would have been down slightly in the absence of the feedlot backlog. Both the beef cow and calf crop numbers were down less than one percent year over year. Beef replacement heifers was even with year earlier totals. The beef cow inventory is 32.05 million head and beef replacement heifers total 4.4 million head. The 2020 calf crop is estimated at 35.8 million head. Using the various feeder inventory estimates, the calculated feeder cattle supply is 37.4 million head, up 0.8 percent year over year.

This report was anticipated, in part, to see if it provided any indications that the industry is liquidating in the aftermath of the turmoil and market shocks of recent months. The slow decrease in beef cow numbers is consistent with the January pace and, combined with stable replacement heifer numbers does not indicate any accelerated liquidation at this point. The second half of the year may tell the tale as cow-calf producers react to fall calf market conditions. Overall, it appears that cattle numbers continue a slow tightening of inventories going forward.

Feeding the Demand for Ground Beef

Most U.S. beef imports go toward feeding the nation's massive appetite for ground beef.

By: Wes Ishmael

Ground beef is such a staple in American diets and culture that it can be easy to overlook its role in the bigger picture of U.S. beef production and marketing.

U.S. beef consumption last year was 58 pounds per capita, according to Derrell Peel, Extension livestock marketing specialist at Oklahoma State University. Of that, ground beef represented about 26 pounds, or about 45% of total domestic beef consumption.

In some ways, ground beef is to the overall beef complex what the stocker business is to the overall cattle business for both consumers and producers. Both aggregate related but diverse raw material and blend them into a more homogenous product of greater value. Both also serve as a shock absorber of sorts, leveling out the seasonal ebb and flow of supplies, so the product is available year-round.

When it comes to beef trim, for example, Peel notes that peak steer slaughter usually occurs from May to late June. Peak fed heifer and beef cow slaughter typically peak in the fall. Most dairy cow slaughter occurs toward the first and last quarters. Bull slaughter — a miniscule contributor to total lean trim volume — comes mostly in the summer.

Plus, ground beef production, similar to the stocker sector, contributes to maintaining relative price relationships because of the ability to warehouse product and use products of various kinds.

"Ground beef is one of the major ways the entire beef complex maintains balance," Peel says.

There's nothing simple about it, though. Ground beef represents a complex production system within the hypercomplex cattle and beef industries.

Ground beef 101

For purposes here, figure that fed cattle produce 55% lean beef trim. That's lots fatter than the 75%-to-80%-and-higher lean ground beef consumers typically see. So, you blend the fatter trim with a higher proportion of leaner trim that comes from slaughter cows and imported beef.

Similar to figuring a least-cost ration for cattle, Peel explains those in the meat business mix and match a menu of lean sources to arrive at a specific percentage lean ground beef product for the lowest possible price.

"The most economical formulation for ground beef will change with changes in relative prices, market conditions and product demands," Peel says.

Lean trim sources on any given day range from fresh 85% lean trimmings to imported 90% lean trimmings to the bottom round.

To a degree, Peel says ground beef production also mirrors the dual, specialized supply chains that characterize the overall industry.

Food service — restaurants, schools, institutions and the like — account for about 54% of total food expenditures in the U.S., according to Peel. Beef products flowing through this chain are often bulk- packaged and then further processed for portion control. Ground beef in this sector uses domestic fat trim, along with fresh and frozen domestic and imported lean beef trim.

Conversely, retail grocery represents about 46% of total U.S. food expenditures. Much of the beef in this supply chain arrives at retailers in case-ready packaging, ready for labeling. Ground beef here is comprised mostly of domestic, fresh lean and fat beef trim.

Imports key to U.S. ground beef

Over the years Peel hears a common question: Why do we import beef ? Don't we produce enough here at home?

"We produce plenty of beef, but it's not in the right proportion of products relative to our demands in the market," Peel says. "To maximize value in the industry, we support our ground beef market with imported lean beef trim."

Then Peel walks the questioner through some numbers.

First, the Livestock Marketing Information Center estimates total beef trim used in the U.S. last year at 8.5 billion pounds (see graphic). Of that, 27% (2.3 billion pounds) was from domestic beef and dairy cows; another 26% (2.2 billion pounds) was imported trim.

Incidentally, Peel says about 72% of all beef imported to the U.S. goes toward domestic ground beef production. He explains about half of U.S. beef imports last year came from Australia and Canada, followed by Mexico, New Zealand and Brazil.

"Roughly, it takes the trim of one cow to add to the trim of one fed animal. We slaughtered 6.4 million cows in the

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Feeding the demand for ground beef

U.S. last year, and 26 million fed steers and heifers," he says. "You begin to see the challenge right away

"We would have to slaughter about twice as many cull cows in the United States to replace the imported trim and still make everything balance with this huge volume of fatty trim that we produce in the fed cattle industry."

There are options, all of which come at higher cost and provide less value.

For instance, Peel says the U.S. could decrease ground beef production by about 45%. As mentioned, domestic consumers currently demand 45% of their beef consumption as ground beef. Plus, the fatter fed cattle trim currently used in ground beef production would have to find a new, lower-value home in the form of such things as tallow and pet food.

The U.S. could maintain current levels of ground beef production by utilizing more muscle cuts, which have more value in other markets.

You could also run 10% to 15% of the yearlings as range beef and market them for values similar to cull cows.

"All of those alternatives would result in lower value to the U.S. cattle industry," Peel explains. "The way markets work, we are increasing total value to the industry by sourcing lean where we can get it cheaper to meet the needs of that market, while letting other products that could be used as a source of lean go into other markets where they have a higher value."

The United States is a net beef exporter on a value basis. This year, for example, the latest quarterly Outlook for U.S. Agricultural Trade from USDA's Economic Research Service projects beef and veal exports at $7.2 billion, with beef and veal imports of $6.1 billion.

"Adjustments in export and import flows collectively serve to smooth out total volumes of beef available for U.S. consumers," says Glynn Tonsor, agricultural economist at Kansas State University, in Overview of U.S. Beef Production, Export, Import and Domestic Consumption Trends: 2003-2019 .

Total U.S. beef production last year was 27.23 billion pounds. Of that, Tonsor says 3.02 million pounds of beef were exported, 3.06 million pounds of beef were imported. Total domestic beef disappearance was 27.28 billion pounds, which corresponded to 57.97 pounds per person, given U.S. population growth.

"Therefore, 11.10% of total U.S. beef production in 2019 was exported, and 11.21% of total U.S. beef disappearance was sourced from imports," Tonsor explains. "There is a -0.53 correlation between annual export and import flows consistent with imports increasing when exports decline, and vice versa."

"While this may be surprising, this synergistic relationship reflects differences in products involved, the role of imported products as inputs (commonly for ground beef production) into U.S. domestic consumption markets, and value differences associated with these volume flows," Tonsor writes.

Note: Peel shared his insights during the webinar series "Intersection of the Cattle and Beef Industries," hosted by the Extension services at North Dakota State University, Texas A&M University and West Virginia University. You can find the NDSU livestock Extension Intersection webinar series at bit.ly/ndsuleiw.

Power of Meat: Consumer perspectives on animal welfare

According to Power of Meat data, only 43% of shoppers think animal welfare for livestock in the U.S. is sufficient.

By: Nevil Speer

The annual Power of Meat 2020 study provides a comprehensive look into various trends driving consumer behavior and perspectives. Accordingly, it's subtitled, "An in-depth look at meat through the shopper's eyes." The report is published by FMI (The Food Industry Association) and the Foundation for Meat & Poultry Research & Education , prepared by 210 Analytics LLC and primarily sponsored by Cryovac (a division of Sealed Air)

There are many important take-aways out of the study; Industry At A Glance has highlighted several of those in recent weeks, including:

1. **Basic trends in terms of what's important to shoppers.** Most notably, the brand/consumer relationship is becoming more important with time.
2. **The importance of transparency with a majority of shoppers desiring more information about how/where livestock were raised and processed.** Fifty-five percent of consumers believe meat and poultry brands should provide that information; meanwhile, 68% believe it's important for grocery stores to do so.
3. **Response to the statement:** "Ranchers take measures to minimize impact of animal farming on environment." Most significant are responses broken out by category:

- Gender: Men were much more likely than women to respond favorably (47 vs 35%, respectively)
- Age: The favorable response was fairly consistent across all age groups. However, the negative response rate consistently rises with each step down in age group. The net outcome being Gen Z (18-23 years old) respondents were twice as likely to disagree with the statement versus Boomers (56-75 years of age): 34 vs 17%, respectively.

That brings us to this week's illustration. It features consumer response to the question of whether or not animal welfare for livestock in the U.S. is sufficient. Overall, 43% of shoppers agree with that assessment – down 8% from the 2019 study.

Meanwhile, much like the environmental assessment, the categorical responses are especially important. Once again, men were more likely to respond "yes" compared with women (51% vs 38%, respectively). And the age trend also remains intact. That is, the negative response consistently rises with each subsequent generation. For example, only 17% of Boomers (56-75 years of age) expressed disagreement that animal welfare for U.S. livestock is sufficient or satisfactory. However, 40% of Gen Z respondents (18-23 years of age) responded in the negative.

As noted last week, based on those results, the meat industry (including beef) has work ahead to build and maintain loyalty among younger shoppers – particularly when it comes to environmental and animal welfare concerns. Coupled with greater demands for transparency, going forward there'll be greater need to ensure both implementation and documentation of best management practices throughout the supply chain.

Doing so is critical to earning consumer trust – that's especially important in an ever-increasingly competitive protein market.

Nevil Speer is based in Bowling Green, Ky. and serves as director of industry relations for Where Food Comes From (WFCF). The views and opinions expressed herein do not necessarily reflect those of WFCF or its shareholders. He can be reached at nspeer@wherefoodcomesfrom.com.

JULY 1, 2020 COF SECOND HIGHEST IN HISTORY

By Cassie Fish , http://cassandrafish.com

Friday's USDA Cattle-on-Feed report showed total cattle on feed down slightly from last year's record high. This due to the backlog of front-end fed cattle offsetting the sharp drop in placements earlier this year. The marketing number was disappointing considering there were two extra kill days and the placement number as expected.

Southern Cattle Feeding Dominance Grows

Texas has 3 percent more cattle on feed than a year ago or 80k head, the third highest in history behind 2006 and 2005, respectively. Kansas has 1 percent more cattle on feed or 30k head, the most in that state's history. Nebraska is number three in COF, down 40k head from a year ago and down 140k head from 2018, it's prior record high. The take away here is that the south continues to grow in dominance in cattle feeding at the expense of the north. Texas has 660k more cattle on feed as of July 1 than Nebraska. Another way to look at it, Texas, Oklahoma, and Kansas now make up 50% of all cattle on feed while Nebraska, Iowa, South Dakota and Minnesota make up 29%.

The other interesting occurrence in June was that while Nebraska out-marketed Texas and Kansas by 100k head in each state, the south plowed into placements hard even though the backlog of cattle is greater there than in the north. This speaks to the commitment to run volume by large corporate yards.

The implications for the industry as a whole of the above facts are significant. Some of the obvious ones are large southern cattle feeders are active hedgers and are influenced by the basis more than the market. Besides basis, grid premiums, occupancy and other volume related efficiencies drive decisions and support replacement values for cash feeder cattle. To put it plain, the large corporates use a different set of decision-making criteria than the traditional cattle feeders. Their dominance is growing. The financial hardship on the cattle feeding industry due to COVID-19 has been significant but based on placements and replacement costs that are nearly as high as a year ago for some classes of cattle, it seems to be impacting them less than others- if occupancy is a gauge.

This Week

Last week's negotiated national fed cattle trade totaled 113k head, 11k bought with time. The 5-area average steer price was lower than expected at $97.24, up only 0.88 cents from the prior week and the highest since mid-June.

Last week's slaughter was 646k head, below the prior week and prior year and consistent with this summer's pattern of disappointing. This week's slaughter is expected to be 646k again. Beef production last exceeded last year.

Boxed beef prices are attempting to put in a seasonal low but the upside rally won't pick up steam until next week.

CME cattle futures opened near last week's highs then have spent the rest of the day slowly slipping. Technically futures are still correcting and the chart pattern is still a choppy sideways pattern.

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