A New Era in Animal Production?
Challenges and Opportunities for the South?

Presented by:
John C. McKissick
Saludia SC Cattlemen’s Association
May 6, 2008

Department of Agricultural and Applied Economics and Center for Agribusiness & Economic Development

www.caed.uga.edu

College of Agricultural and Environmental Sciences
The University of Georgia
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The Players
The Future - It’s The Economy Stupid!

Slower Growth Increases Vulnerability

Percent change Gross Domestic Product (Chained 2000$)

Recession impact to high-value food product demand?
Housing starts in Sept at 1.19 mil!
Lower Interest Rates, Less Concern With Deficits!

Fed Buys Insurance on Growth
It’s Energy Stupid!
Ag as Energy Users and Suppliers

Crude Oil and Natural Gas Price

Crude Oil Tripled, Natural Gas Quadrupled Since 2002

WTI Crude Oil Price (Left Scale)

Henry Hub Natural Gas Price (Right Scale)
The Dollar – How Low Can You Go?

*Dollar Correction Continuing in 2007-08*

Indexes of major currencies/US$ adjusted for relative prices (Aug 2003=100)

*Currencies weighted by relative market importance to total U.S. trade.*
Results - Higher Input Cost

WTI Oil Prices: Various Currencies

<table>
<thead>
<tr>
<th>Currency</th>
<th>Change Nov. 02 to Oct. 07</th>
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<tbody>
<tr>
<td>U.S. price</td>
<td>+ 196% (tripled)</td>
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<tr>
<td>China renminbi</td>
<td>+ 168%</td>
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<tr>
<td>Euro</td>
<td>+ 108% (doubled)</td>
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Ga Losers – Fuel and Fert Buyers
Results - More Competitive Exports

U.S. Ag Trade: Weaker Dollar Lifts Surplus

Billion dollars per fiscal year

Ga Winners –
Crops, Livestock

Why corn/beans export up with record prices
U.S. consumes about 144 Billion gallons of gasoline per year!
Ethanol production amounts to about 3.8% of gasoline use.

1 in every 4 acres of corn to make this ethanol!
Current and Proposed Ethanol Plants

143 plants in production, 64 plants under construction/expansion
Source: Ethanolrfa.org

As of March 4, 2008

Existing Capacity 7.2 Bil. Gallons
Coming Capacity 5.2 Bil. Gallons
Source: Ethanolrfa.org
Midwest Ethanol Rack vs SE Wholesale Regular Gas 2006 to Date

Midwest Ethanol vs SE Reg Gas vs Fuel Value

Fuel Additive

Fuel Commodity
Now Use More Corn for Ethanol Than Export (25% Exports, 25% Ethanol, 50% Feed)

CORN - MONTHLY AVERAGE PRICE
Received by Farmers, U.S., Crop Year

<table>
<thead>
<tr>
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<th>1/02-05/06</th>
<th>2006/07</th>
<th>2007/08</th>
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<tr>
<td>SEP</td>
<td>1.70</td>
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<td>4.20</td>
<td>4.70</td>
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$ Per Bu.
Energy Bill – 2007
Mandate Approach but .51/gal subsidy
Ethanol ($1.38/bu), $1 Biodiesel Remains

• 36 BG of Ethanol by 2022 (about 8 BG now)
• 15 BG of Grain Ethanol by 2015. 8BG in 2008 up to 15 by 2015
• 100 mg of Cellulostic Ethanol in 2010. By 2022, 16 BG
• Biodiesel – 500 MG in 2009 up to 1 BG by 2012.
Other Ethanol Issues

• Imports of Ethanol taxed at .54/ Gal. Will expire 1/1/09.
• Blenders Credit of .51/Gal. will expire 12/31/10.
• Energy Bill prohibits use of wood feedstock from public lands OR naturally re-generated forest
• Future Ethanol Prices???
Farm Bill & Federal Policy Implications for Livestock Producers

• Additional spending on ethanol development.
  – Implies continued higher feed cost for poultry and swine producers. Lower prices for feeder cattle. UNLESS Subsidies reduced (-.06/gal. likely in FB) or alternative ethanol supplies (imports/cellulosic) supported (+.49/gal cell. E. and -.06/gal. import tax likely in FB)
  – Watch mandated ethanol levels in energy bills

• No further postponement in mandatory country of origin labeling.
  – Affects beef and swine producers.

• Increased “conservation” spending – EQUIP etc.

• Commodity programs payments (WTO) threatens “Free Trade”???

• Labor and immigration bill
OTHER

- Pew Commission on Industrial Farm Animal Production – Animal Welfare, Public Health, Environment, Rural Prosperity
- Media Attention to Abuses of in Harvesting/Processing of Animals
- Animal Rights Agenda etc.
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The Playing Field
Pork – Peddling Up Hill in 2008
Is It Good To Be The Other White Meat???

RETAIL MEAT AND POULTRY PRICES
Real (1996 $, GDP Deflator), Annual

Cents Per Pound

1981 1983 1985 1987 1989 1991 1993 1995 1997 1999 2001 2003 2005

Beef
Pork
Broilers
Turkey
Pig Production Grows In Response to Profits

ANNUAL PIG CROP
U.S.

Livestock Marketing Information Center
Data Source: USDA/NASS
COMMERCIAL PORK PRODUCTION
Quarterly

Up 2-3% per yr. to 2009
15 years of Growth to 2007

U S PORK EXPORTS

Carcass Weight, Annual

Bil. Pounds

2007 Breakout Year For Broilers?

BROILER PRICES
Georgia Dock 2.5-3 Lbs. Bird, Weekly

Cents Per Pound

2002-06 Avg.
2007
2008
Bird Flu Fallout?

BROILER PRICE-QUANTITY RELATIONSHIP
Annual, Retail Weight, Deflated Retail Composite Price

$ Per Pound

58  63  68  73  78  83  88  93  98

P-P-04A
02/21/07
WHOLESALE CHICKEN BREAST PRICES
Skinless/Boneless, Northeast, Truckload, Weekly

Cents Per Pound

Jan

Apr

Jul

Oct

2002-06

2007

2008

Avg.
WHOLESALE CHICKEN LEG PRICES
Northeast, Truckload, Weekly

Cents Per Pound

Avg. 2002-06
2007
2008

JAN  APR  JUL  OCT
BROILER EGGS SET
Weekly

Livestock Marketing Information Center
Data Source: USDA/NASS
RTC BROILER PRODUCTION
Quarterly

2007 Down 1%
2008 UP, 09 DOWN
Broiler Exports Grow - But US Now #2 Exporter To Brazil

U S BROILER EXPORTS
RTC, Annual

Bil. Pounds

BROILER PRICES
12-City Composite, Weekly

2006 = $64.4
2007 = $76
2008 = $80
MILK PRODUCTION

vs. MILK COW INVENTORY

Average Annual Inventory, U.S.

Mil. Head

Bil. Pounds

2008 Milk Price Estimates

$19.38/cwt (est. annual average)

$17.90/cwt (est. annual average)

Southeast/Lower Appalachian Uniform Price

U.S. All Milk Price
THE BEEF CATTLE CYCLE

Increase in Cattle Inventory Means Increased Beef Supplies 3 Years Later
CALF PRICES AND CATTLE INVENTORY
Western Kansas 5-600 Lb. Steers, Annual

Cattle Inventory
Calf Price
If Not For Improved Beef/Red Meat Demand, Adjustments Would Be More Severe!
MED. & LRG. #1 & 2 FEEDER STEER PRICES
700-800 Pounds, Georgia, Weekly

$ Per Cwt.

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<th>2007</th>
<th>2008</th>
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Avg.
2002-06
2007
2008
Future Price Support from Exports?

U S BEEF AND VEAL NET IMPORTS
As a Percentage of Production, Carcass Weight, Annual
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The Outcome
A New Era in Animal Production? Challenges and Opportunities for the South?

- Prices relatively high, profits relatively low
- Input price risk management as important as market price risk management
- Grass gains more valuable vs. grain gain – keep cattle in South to heavier weights!
- Heifers once again more attractive stocker alternatives
- Low input forage production alternatives more competitive, BUT remember is the cost per unit of production that counts
- Larger discounts for surplus (i.e. Feeder Cattle), premiums for deficit products (Milk, grain etc.)
- Input price risk management is as important as market price risk management
- “Local” produced demand continues to increase!
- Natural (not organic)/Humane Treated Animal Production will become even more important to consumers.
Questions?

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