

---

**Changing Supply, Demand, Cost and Price Forces & Trends  
Present Major Challenges and New Opportunities for the  
North American Beef Industry over the Next 15 to 25 Years  
and Beyond**



**For  
The 2011 International  
Livestock Congress Annual  
Meeting  
The Deerfoot Inn  
Calgary, Alberta**

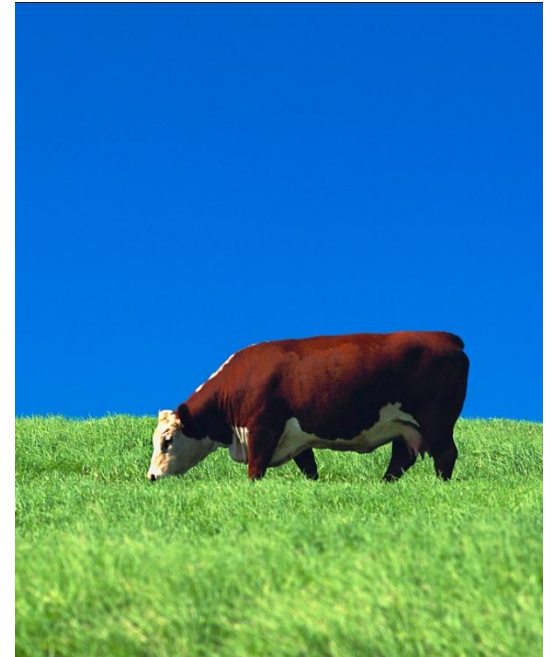
**August 10, 2011**

---

# **Prepared and Presented By**

**Bill Helming**  
**Economist, Agribusiness**  
**Consultant and Author**

**Bill Helming Consulting Services**  
**10640 South Glenview Lane**  
**Olathe, Kansas 66061**  
**(913) 768-6540**



# Who is Bill?

- Grew up in La Jolla, CA on a ranch and feedlot with two brothers in the 1940's and 50's.
- Went to Oregon State University on a football scholarship.
- Moved to Nevada to run the family ranch and received B.S. and M.S. in Ag Economics at University of Nevada at Reno.
- Moved to Denver - First Chief Economist for the National Cattlemen's Beef Association in 1965, launched CattleFax.
- Moved to Kansas and launched a macro economic & Ag consulting firm in 1972, "Bill Helming Consulting Services."



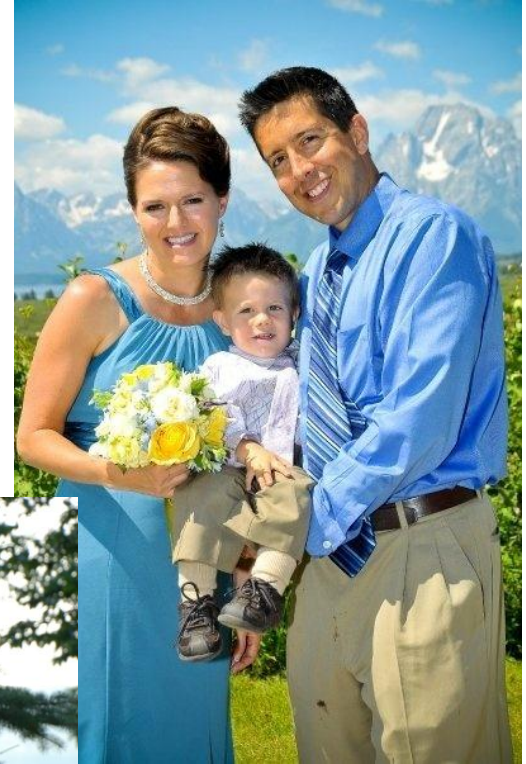
# Who is Bill?



**Bill & Wife Kathleen**



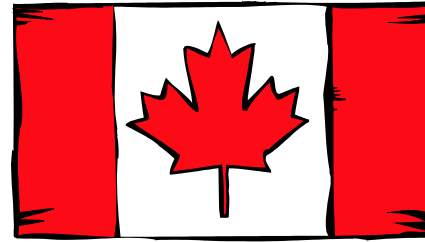
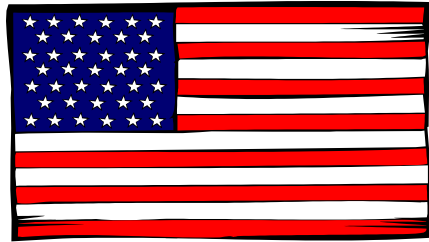
**Son Nathan**



**Son Troy & Family**



**Daughter Tammy & Family**

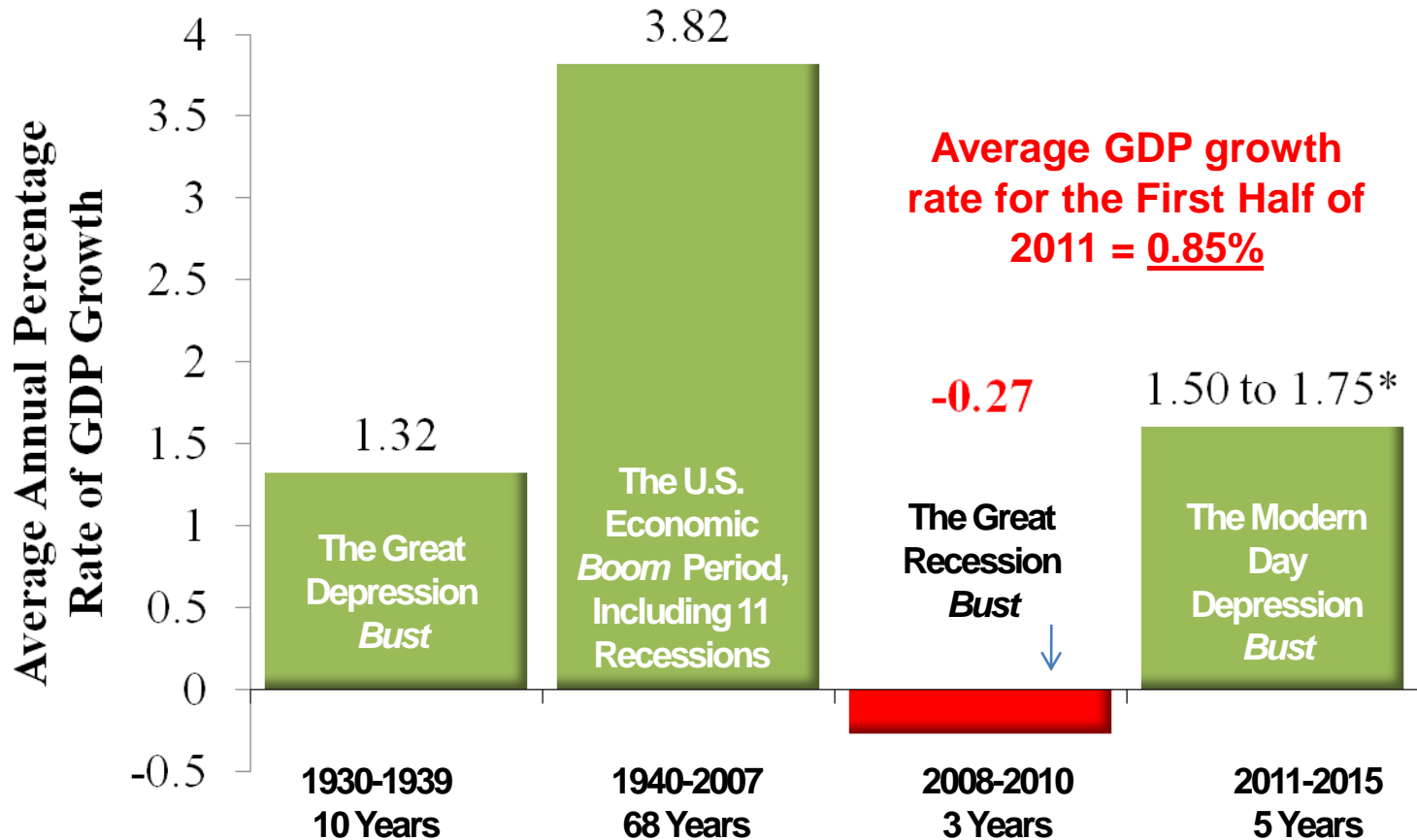


# **The U.S. and Canadian Beef Industries' Challenges and Opportunities**

**Summary of Important  
Economic and Financial  
Long-term Boom and  
Bust Cycle Trends  
During the 1930-2025  
Time Period In the  
United States**

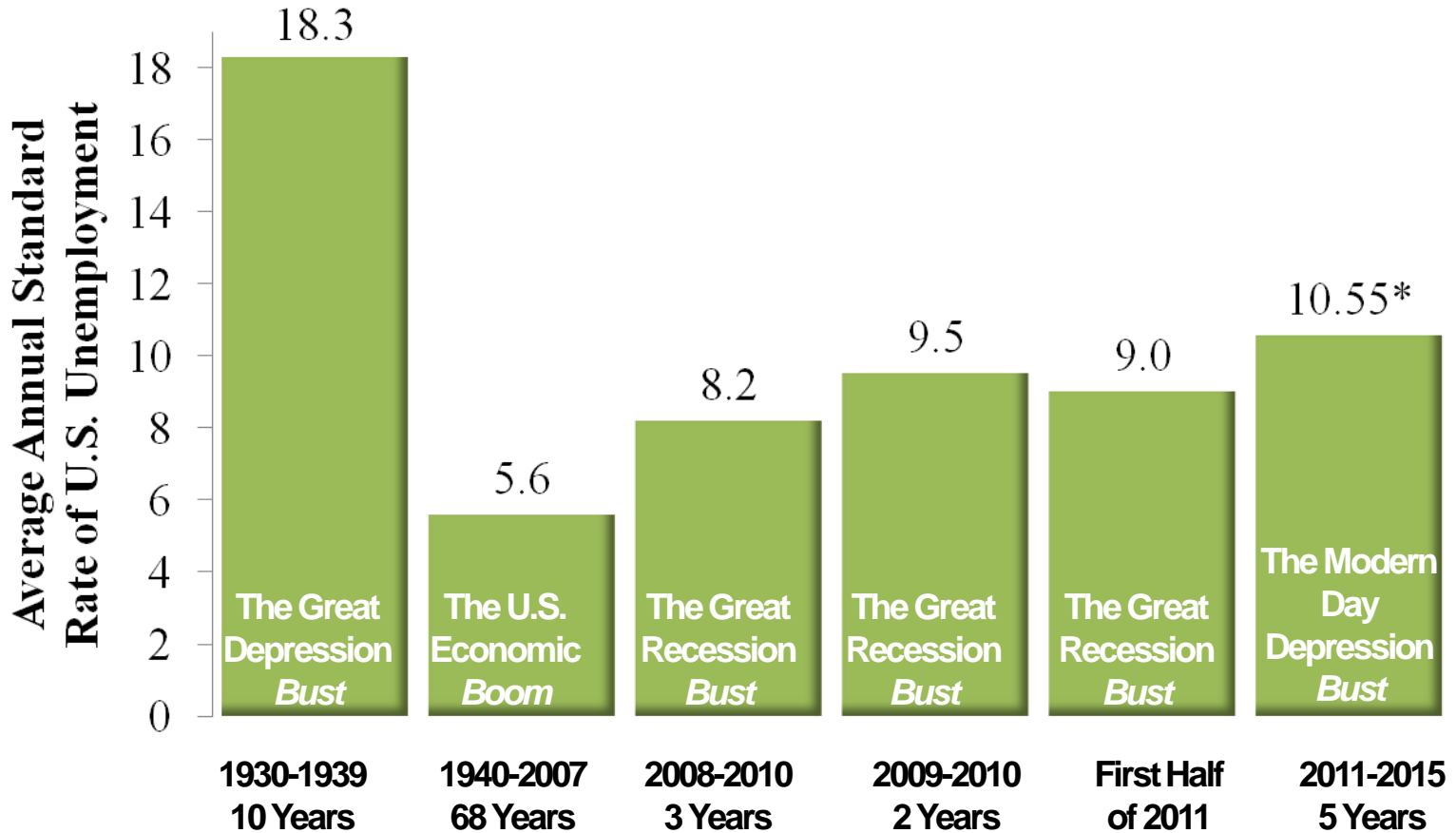


# Average Annual Rate of GDP Growth for the U.S. During the Economic Boom and Bust Periods for the 1930-2015 (86-Year) Time Period



Source: U.S. Department of Commerce.  
\*Forecasted by Bill Helming

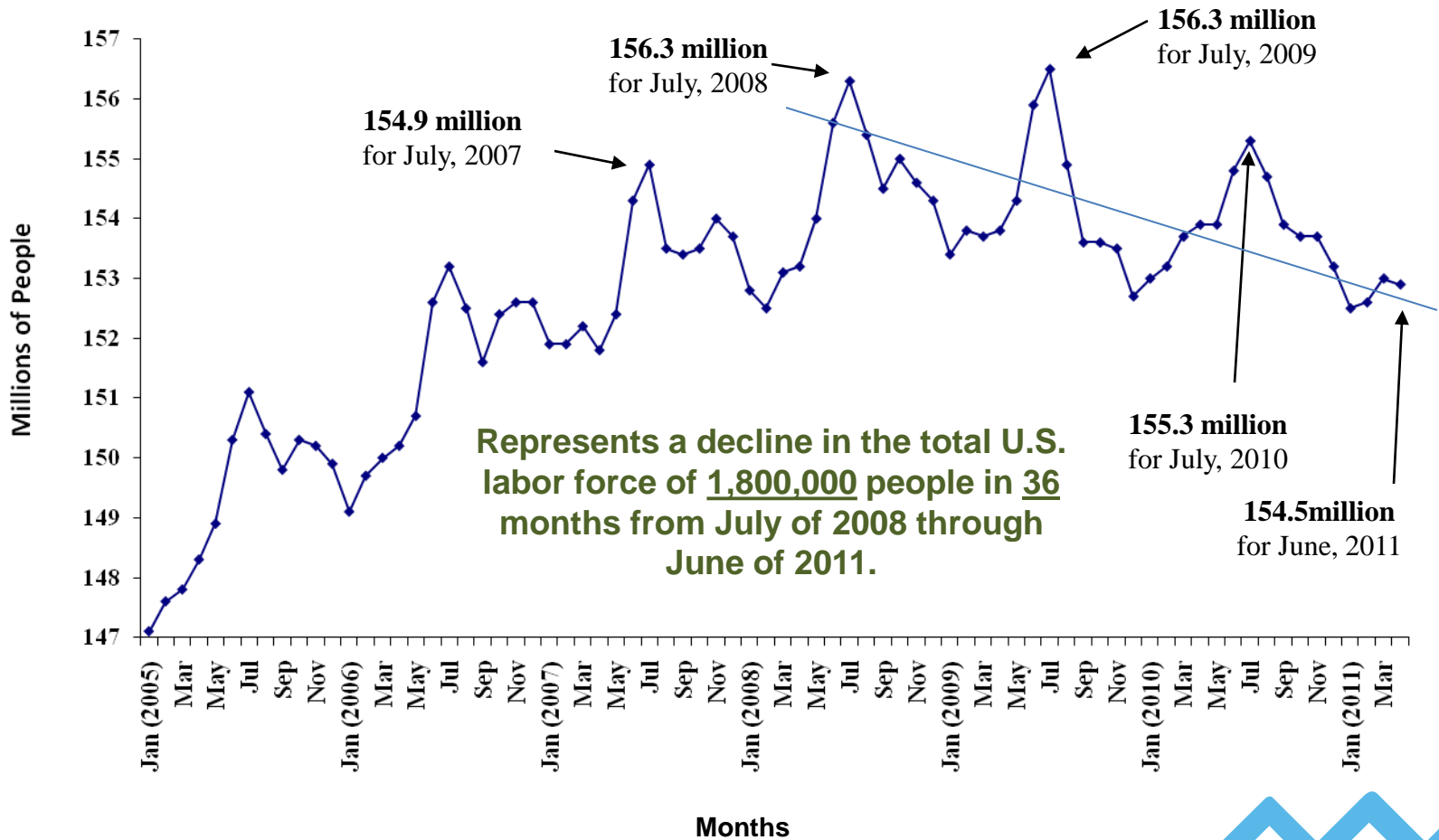
# The Average Annual Standard Rate of U.S. Unemployment During the Economic Boom and Bust Periods for the 1930-2015 86-Year Time Period



Source: U.S. Bureau of Labor Statistics, Department of Labor.

\*Forecasted by Bill Helming.

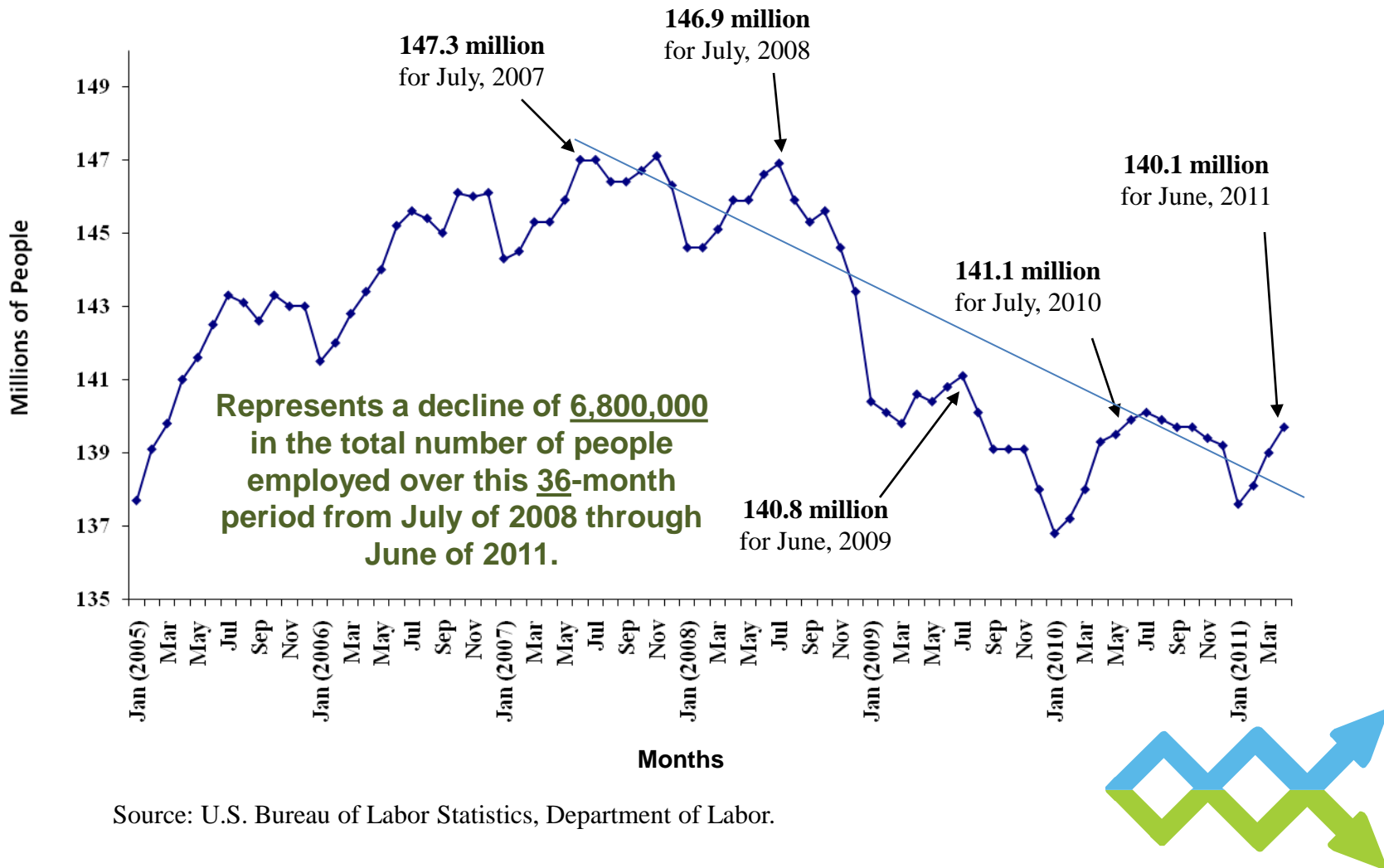
# The Total U.S. Labor Force has been Declining Since July, 2009 (Monthly Figures from January, 2005 through June, 2011)



Source: U.S. Bureau of Labor Statistics, Department of Labor.



# The Total Number of People Employed in the U.S. by Month (January, 2005 through June, 2011)



Source: U.S. Bureau of Labor Statistics, Department of Labor.

## The Standard and Real Average Annual U.S. Unemployment Rates for the 12 Years of 2000-2011 in Perspective

Key U.S. Unemployment Dates	Number of Years	Percentage Average Annual <i>Standard</i> Rate of Unemployment	Percentage Average Annual <i>Real</i> Rate of Unemployment
1. 1940-2007	68	5.6	9.8
2. The 11 economic recessions during 1940-2007	68	5.7	10.0
3. 2000-2001 (including a recession)	2	4.4	7.7
4. 2000-2007	8	5.1	8.9
5. 2008	1	5.8	10.2
6. 2008-2010	3	8.2	14.4
7. 2009-2010	2	9.5*	16.6*
8. First six months of 2011	1/2	9.0	15.8
9. First six months of 2011 range	1/2	8.8 to 9.2	15.4 to 16.1

Source: The U.S. Bureau of Labor Statistics, Department of Labor.

\*The unemployment rate is **70% higher** in 2009-2010 than for the **68-year** average unemployment rate for the 1940-2007 time period.

## The Growth in the Total Combined U.S. Private and Public Sector Debt, the Total Combined Consumer, Corporate and Business Private Sector Debt and the Total Combined Federal, State and Local Government Sector Debt for the 51 Years from 1957-2007

Major Debt Categories	Total Debt in 1957	Total Debt in 2007	Total Percentage Increase	Average Annual Percentage Increase
1. Total combined US private and <i>public sector</i> debt	<b>\$643 billion</b>	<b>\$50 trillion</b>	<b>7,776</b>	<b>153</b>
2. Total combined <i>private sector</i> consumer, corporate and business debt	<b>\$347 billion</b>	<b>\$40.5 trillion</b>	<b>11,675</b>	<b>229</b>
<b><i>Percent of total debt</i></b>	<b><i>54%</i></b>	<b><i>81%</i></b>	<b><i>---</i></b>	<b><i>---</i></b>
3. Total combined federal, state and local government public sector debt	<b>\$296 billion</b>	<b>\$9.5 trillion</b>	<b>3,210</b>	<b>63</b>
<b><i>Percent of total debt</i></b>	<b><i>46%</i></b>	<b><i>19%</i></b>	<b><i>---</i></b>	<b><i>---</i></b>

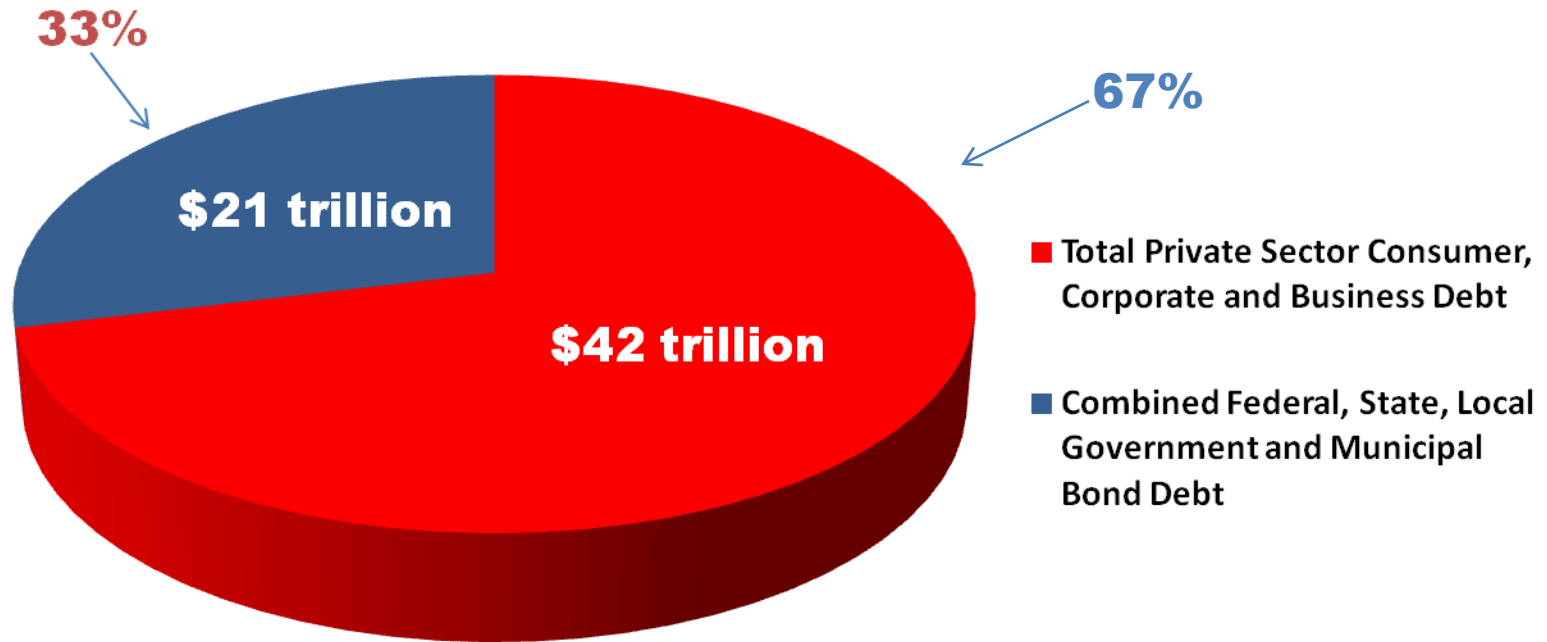
Source: The Federal Reserve Board.

## The Growth of the U.S. Private Sector and Public Sector Debt over the 11 Years from 2000 through 2010\*

Major Debt Categories	2000	2010	Total Dollar Increase	Percentage Increase in 11 Years	Average Annual Percentage Increase
1. Combined private sector consumer, corporate and business debt	<b>\$20 trillion</b>	<b>\$42 trillion</b>	<b>\$22 trillion</b>	<b>110</b>	<b>10.0</b>
<i>Percent of GDP</i>	<i>201%</i>	<i>286%</i>	---	---	---
2. Federal, state and local government debt, plus municipal bond debt	<b>\$7.3 trillion</b>	<b>\$21 trillion</b>	<b>\$13.7 trillion</b>	<b>288</b>	<b>26.2</b>
<i>Percent of GDP</i>	<i>73%</i>	<i>142%</i>	---	---	---
3. Government and private sector unfunded liabilities (97% of which is in the government sector)	<b>\$21 trillion</b>	<b>\$48 trillion</b>	<b>\$27 trillion</b>	<b>129</b>	<b>11.7</b>
<i>Percent of GDP</i>	<i>261%</i>	<i>327%</i>	---	---	---
4. Grand total combined private sector, public sector and unfunded liabilities debt	<b>\$48.3 trillion</b>	<b>\$111 trillion</b>	<b>\$62.7 trillion</b>	<b>130</b>	<b>11.7</b>
<i>Percent of GDP</i>	<i>485%</i>	<i>755%</i>	---	---	---

Source: The Federal Reserve Board.

# Total U.S. Private Sector Debt Versus The Total U.S. Combined Federal, State, Local Government and Municipal Bond Debt in 2010

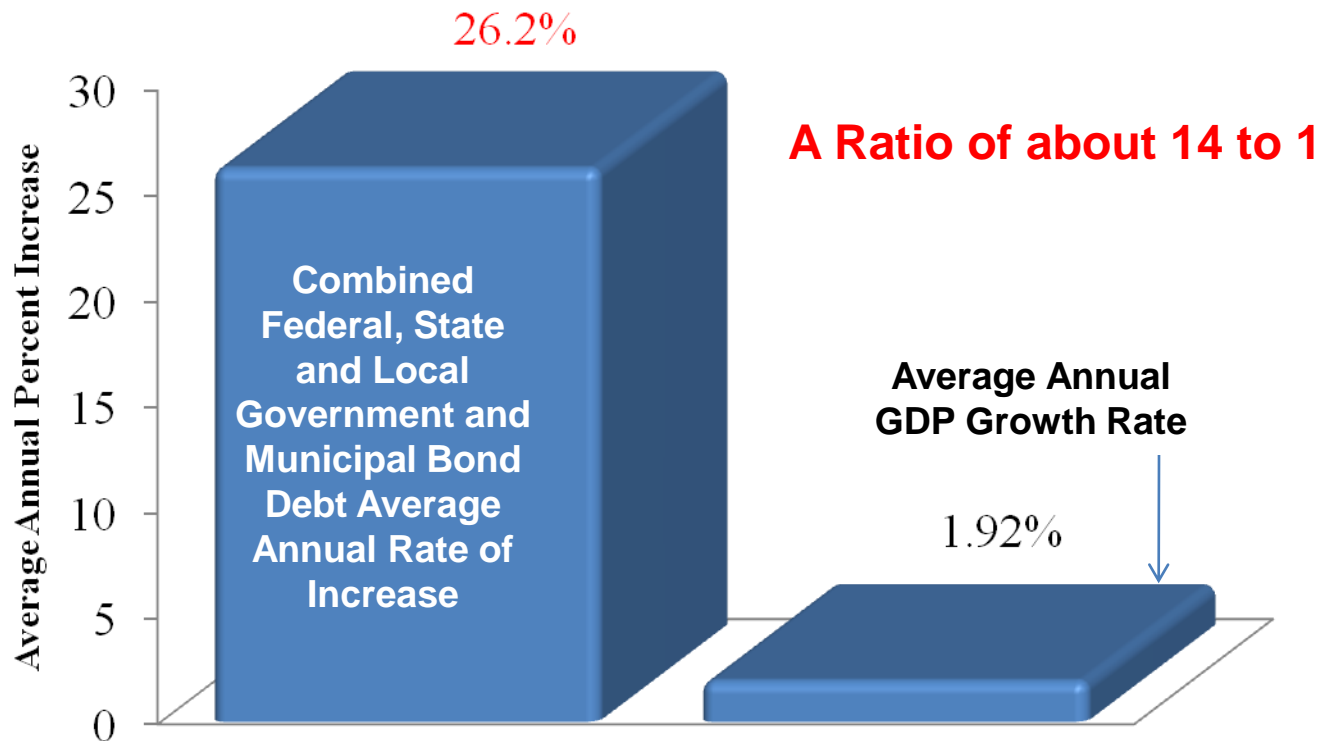


Many U.S. consumers and small businesses are struggling to make their total debt service payments and are deleveraging. Therefore, they are spending and borrowing less money. Higher taxes would only make things worse.

Source: The Federal Reserve Board.



# The Average Annual Percentage Rate of Increase in the Combined U.S. Federal, State, Local Government and Municipal Bond Debt Versus the Average Annual Rate of GDP Economic Growth For the 11 Years of 2000-2010



Source: The Federal Reserve Board and the U.S. Department of Commerce.

**The Borrow, Borrow, Borrow and Spend,  
Spend, Spend Party is Over in America.**

**This is a Very Important Game Changer  
for the Next 15 to 25 Years in the United  
States.**



# America Has Lived Far Beyond Its Means, Particularly Since the Year 1990 and This Has Major and Serious Consequences

- ▲ Excessive leverage and growth in private and public sector debt. America has borrowed its way to prosperity.
- ▲ Excessive government spending and budget deficits.
- ▲ The U.S. Federal Government and most state governments are broke financially. This has major consequences.
- ▲ Getting our financial house in order and back in balance is going to be a painful process. The required adjustments by Americans and by America will take at least **10 to 20 years**.



**Government Socialism Over Time Always Fails.**

**Private Sector Capitalism Always Works Over Time.**

**Federal Government Stimulus and Bailout Programs and Policies Do Not Work and Always End Up Failing Over Time.**



**U.S. Federal Government Monetary and Fiscal Policies in 2008-2011 have Failed Primarily Because Government Financial Transactions are Not the Key to Prosperity, Economic Growth and New Job Creation.**

**The Economic Wellbeing, Prosperity, Wealth Creation, Economic Growth and New Job Creation of the U.S. is Determined Primarily by the Creativity, Hard Work, Risk Taking and Determination of Individuals, Families and Business Owners and Managers in the Private Sector Striving to Climb the Economic Ladder.**

**The Very Large Increases in Federal, State and Local Government Spending and the Excessive Debt and Deficit Spending Represent Very Big Negatives for the U.S. Economy Moving Forward. This was also True During the Great Depression in the 1930's.**



# Other Important U.S. Economic and Financial Market Trends for the 2011-2015 Time Period

- ▲ There will be further significant reductions (**20% to 30%**) in U.S. single-family average home, commercial and retail real estate values, rising home foreclosures and many more homes being *underwater*.
- ▲ Federal, state and local government spending in the U.S. will be significantly reduced over the next **10 years**. The U.S. Federal Government budget will be balanced and the U.S. debt will be reduced. This will be a very painful and necessary process over time.
- ▲ The **78 million** U.S. baby boomers (**25%** of the total U.S. population) will be spending less, downsizing and saving more for at least the next **20 to 25 years**.
- ▲ In the U.S., there are now **10,200** Americans who turn **65** each day. This will continue for the next **21 years**.

Source: U.S. Census Bureau and the U.S. Department of Health.



# Summary of the U.S. Economic Outlook For the 2011-2020 Time Period

- ▲ A much slower than normal rate of economic growth.
- ▲ A much higher than normal rate of unemployment.
- ▲ A much slower than normal rate of consumer spending.
- ▲ Discretionary consumer spending will decline further and will remain below normal.
- ▲ Increased numbers of U.S. beef consumers will be impacted by affordability issues relative to (1) buying *fewer* higher priced cuts of beef and (2) buying *more* lower priced ground beef (hamburger) and other lower-priced competing protein products, such as chicken.



# The Average Annual U.S. Percentage Rate of CPI Inflation and Deflation over the 91 Years from 1930-2020

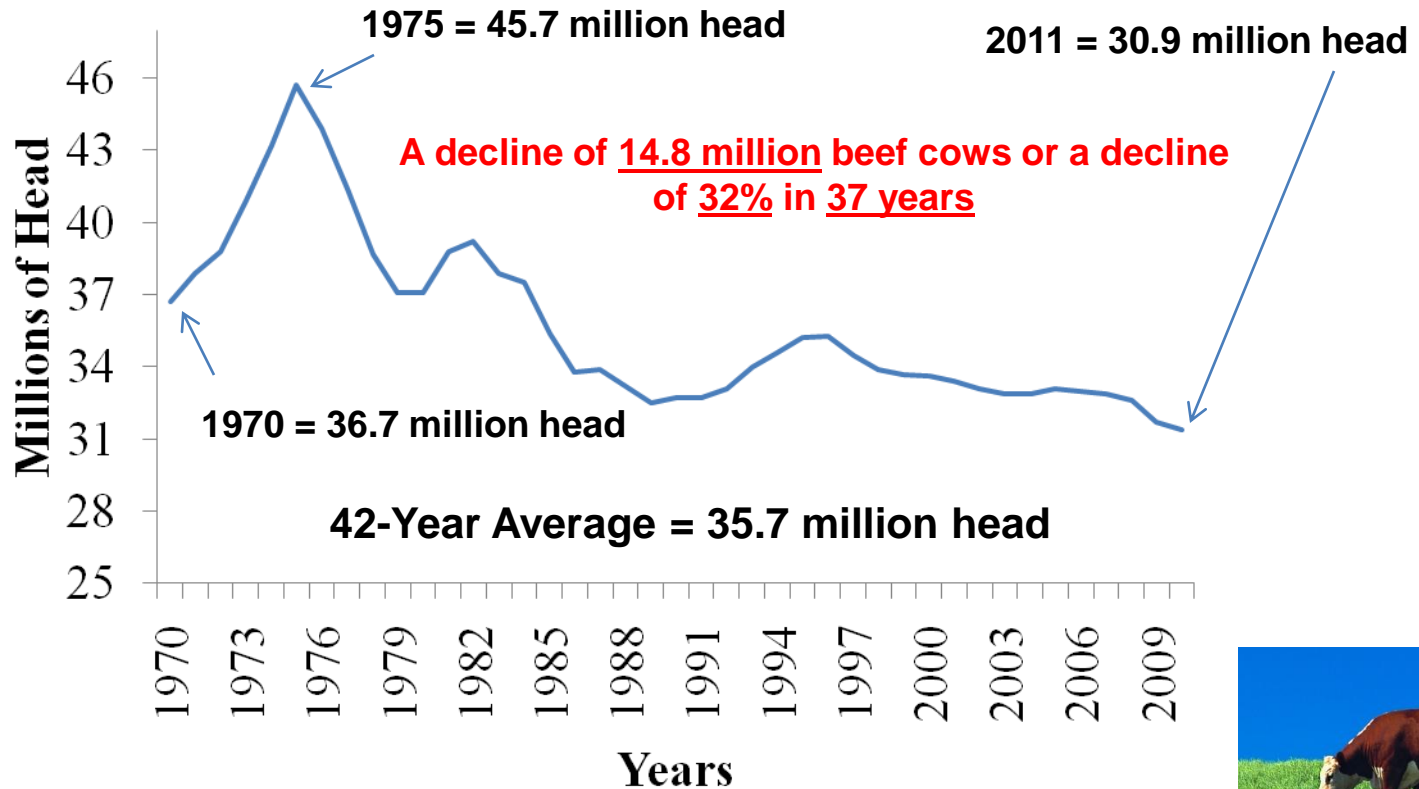
Years	Number of Years	Average Annual Percentage Change in CPI
1930-1939	10	<b>-2.0</b>
1940-2008	69	<b>4.0</b>
1985-2008	24	<b>3.1</b>
2008	1	<b>3.8</b>
2009	1	<b>-0.4</b>
2010	1	<b>1.6</b>
2011*	1	<b>3.2*</b>
2011-2020*	10	<b>0.0 to -2.0*</b>

Source: U.S. Bureau of Labor Statistics, Department of Labor.

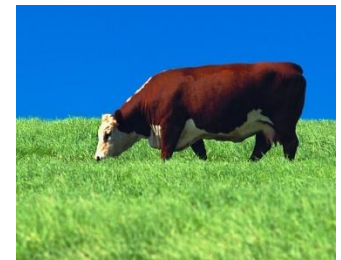
\*Forecasted by Bill Helming. The average annual rate of *CPI deflation* will fall within the zero inflation to a CPI deflation number of **-2.0%** for the 2011-2020 time period. The average annual rate of CPI deflation for the 10 years of 2011-2020 will be close to **-1.0%** for many sound reasons. Plan and prepare accordingly.

**Important U.S. and Canadian Beef Industry  
Supply, Demand and Price Trends,  
Challenges, Opportunities and Needed  
Changes**

# Annual U.S. Beef Cow Numbers As of January 1<sup>st</sup> for the 42 Years of 1970-2011



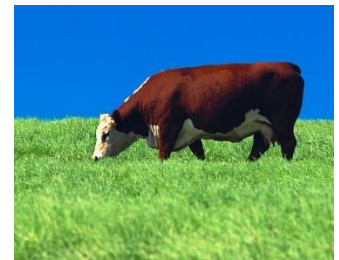
Source: USDA, Economic Research Service.



---

## Why U.S. Beef Cow and Calf Crop Inventory Numbers have been for Many Years Declining and Why they will Continue to Decline Over Time

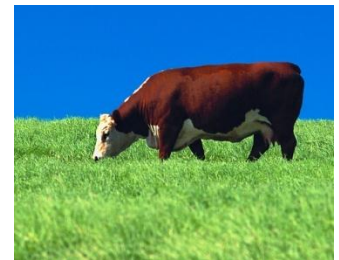
- ▲ Beef cow total capital investment and production costs are now at record high levels. Profit margins are much less than many believe. Only those who have much lower than average costs will survive.
- ▲ Most U.S. beef cow-calf operations are *not* economically viable and sufficiently profitable because of their small size and because of their high cost structure, even with the present record high cattle prices.
- ▲ U.S. family-owned and operated commercial beef cow calf units that are economically viable today and that have lower than average production costs require having about **350 to 550 head** of beef cows. The average U.S. beef cow herd size today is **41 head**! However, **80%** or **600,000** of today's beef cow owners have, on average, less than **50 cows**! Many of these smaller operations are part-time and *hobby* units that have been and will continue to exit the business.



---

## **Why U.S. Beef Cow and Calf Crop Inventory Numbers have been for Many Years Declining and Why they will Continue to Decline Over Time**

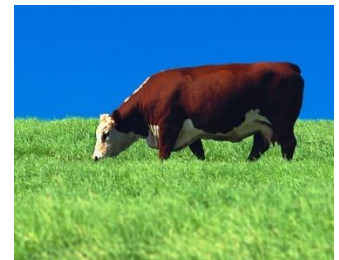
- ▲ The age of most beef cow calf operators is such that many are reducing numbers or getting out of the beef cow-calf business completely and simply retiring. Many are baby boomers who want to downsize, spend less, work less and save more.
- ▲ Many U.S. beef cow-calf operations have already sold or continue to sell their beef cows and use their grass and forage supplies to run yearlings and stocker cattle on a seasonal spring, summer and early fall basis. They have done so and they will continue to do so in order to significantly reduce their total investment and operating costs, while still using their grass and forage supplies, plus being able to reduce their work load.



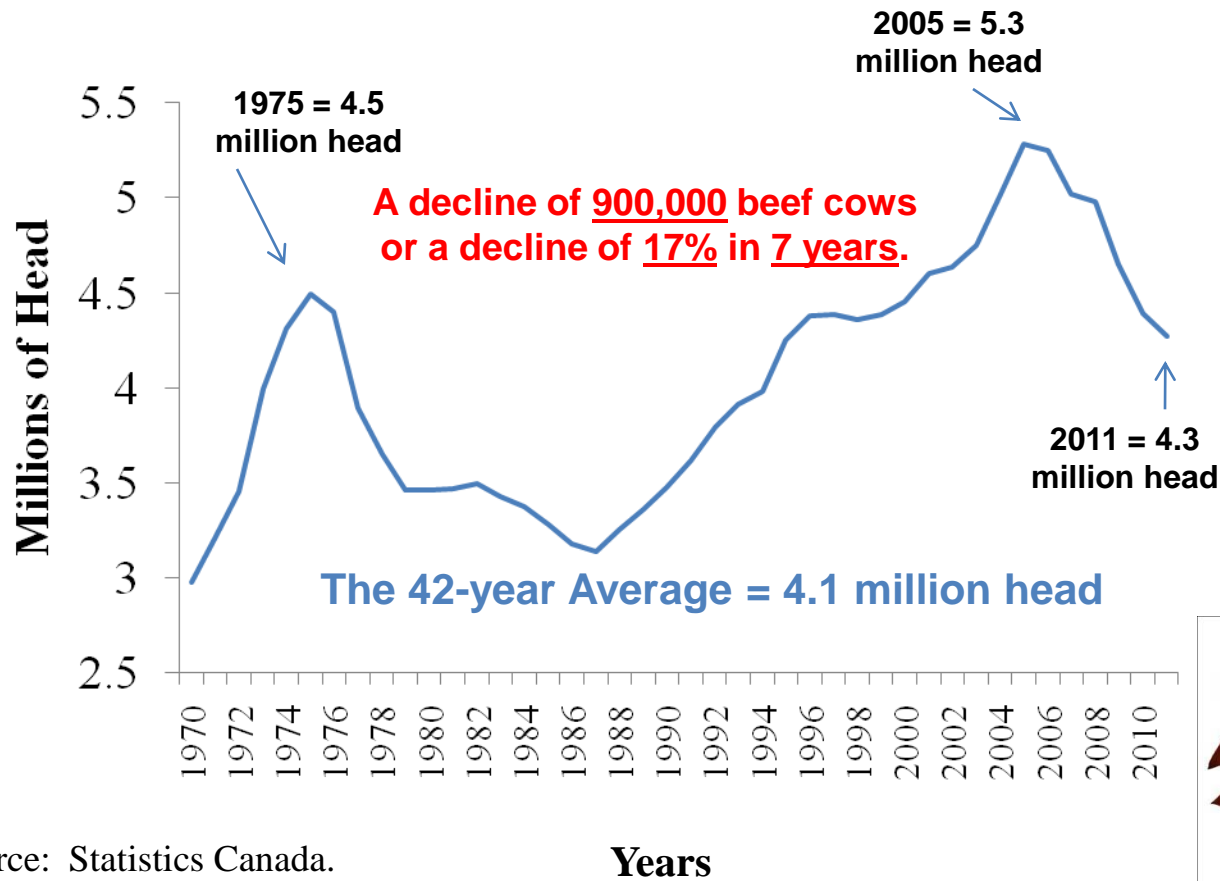
---

## **Why U.S. Beef Cow and Calf Crop Inventory Numbers have been for Many Years Declining and Why they will Continue to Decline Over Time**

- ▲ Record high beef cull cow and bull slaughter cattle prices are serving as a major economic incentive for beef cow-calf operators to sell more beef cows. They are clearly doing so.
- ▲ Dry and hot weather in key parts of the U.S., plus government regulations and high grazing fee costs on federally owned Forest Service and BLM lands in the West are also contributing to the liquidation of the U.S. beef cow inventory.



# Annual Canadian Beef Cow Numbers As of January 1<sup>st</sup> for the 42-Years of 1970-2011

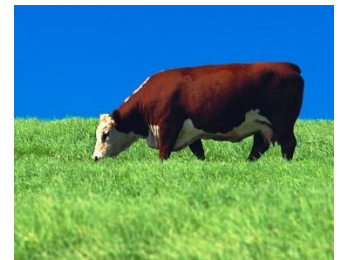


Source: Statistics Canada.

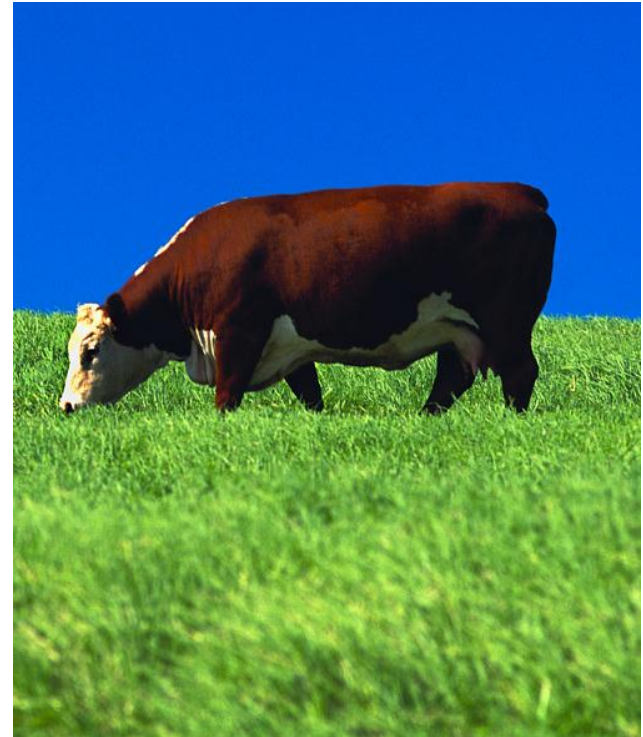
---

## Important U.S. Beef Industry Trends and Realities

- ▲ Beef cow and calf crop inventory numbers continue to decline.
- ▲ Per capita beef consumption continues to decline.
- ▲ The beef industry continues to lose significant market share to the chicken industry.
- ▲ There is substantial excess cattle feeding and beef packing capacity and this will become a much greater issue in the years ahead.
- ▲ Beef cattle producers and feeders are now enjoying record high prices.
- ▲ Beef production and cattle feeding costs are now at record high levels.

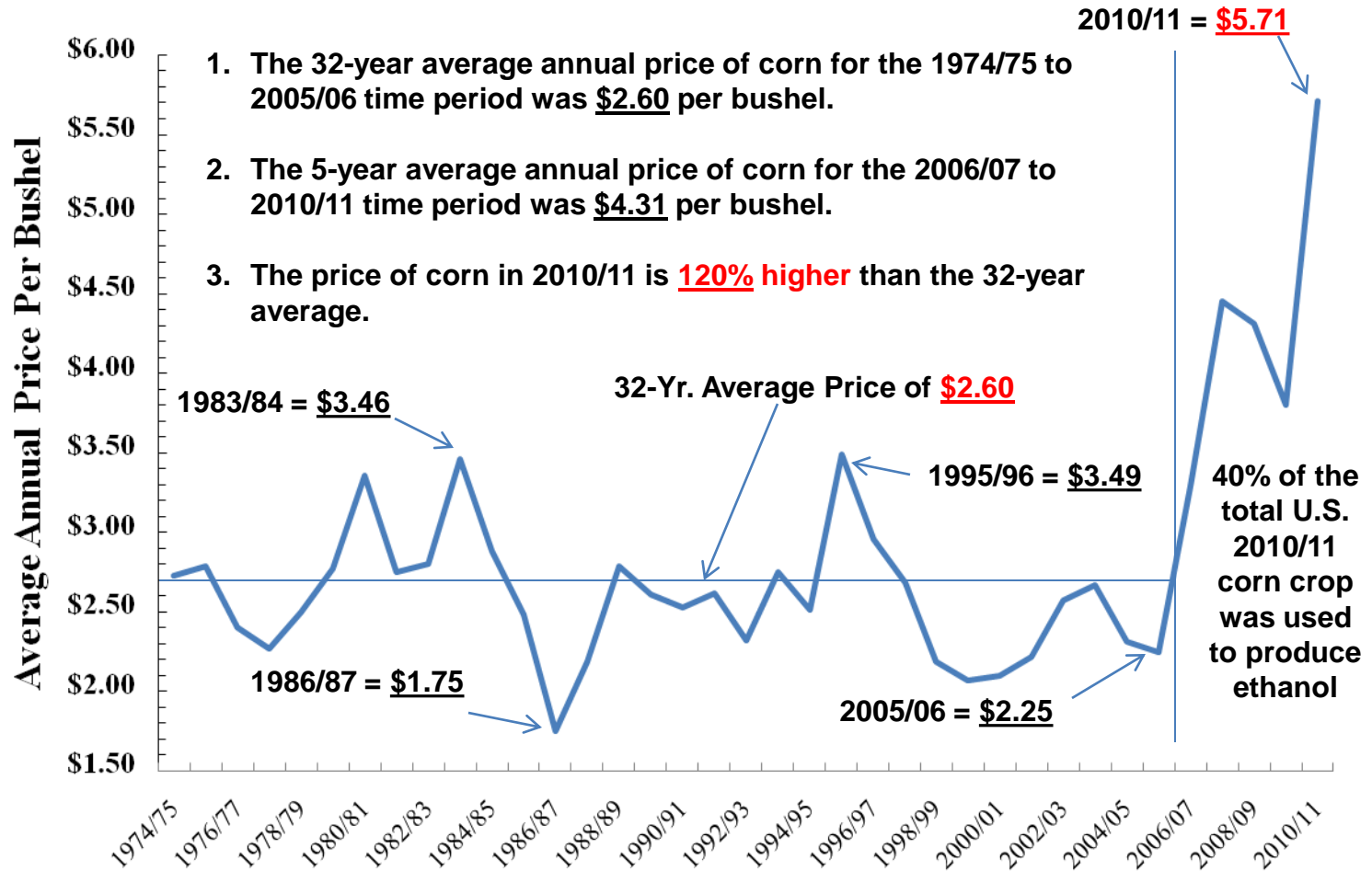


**The U.S. and the Canadian Beef Industries (Over Most of the Past 100 Years) were very much Built on (1) Low Priced Corn and (2) Low Priced Energy.**



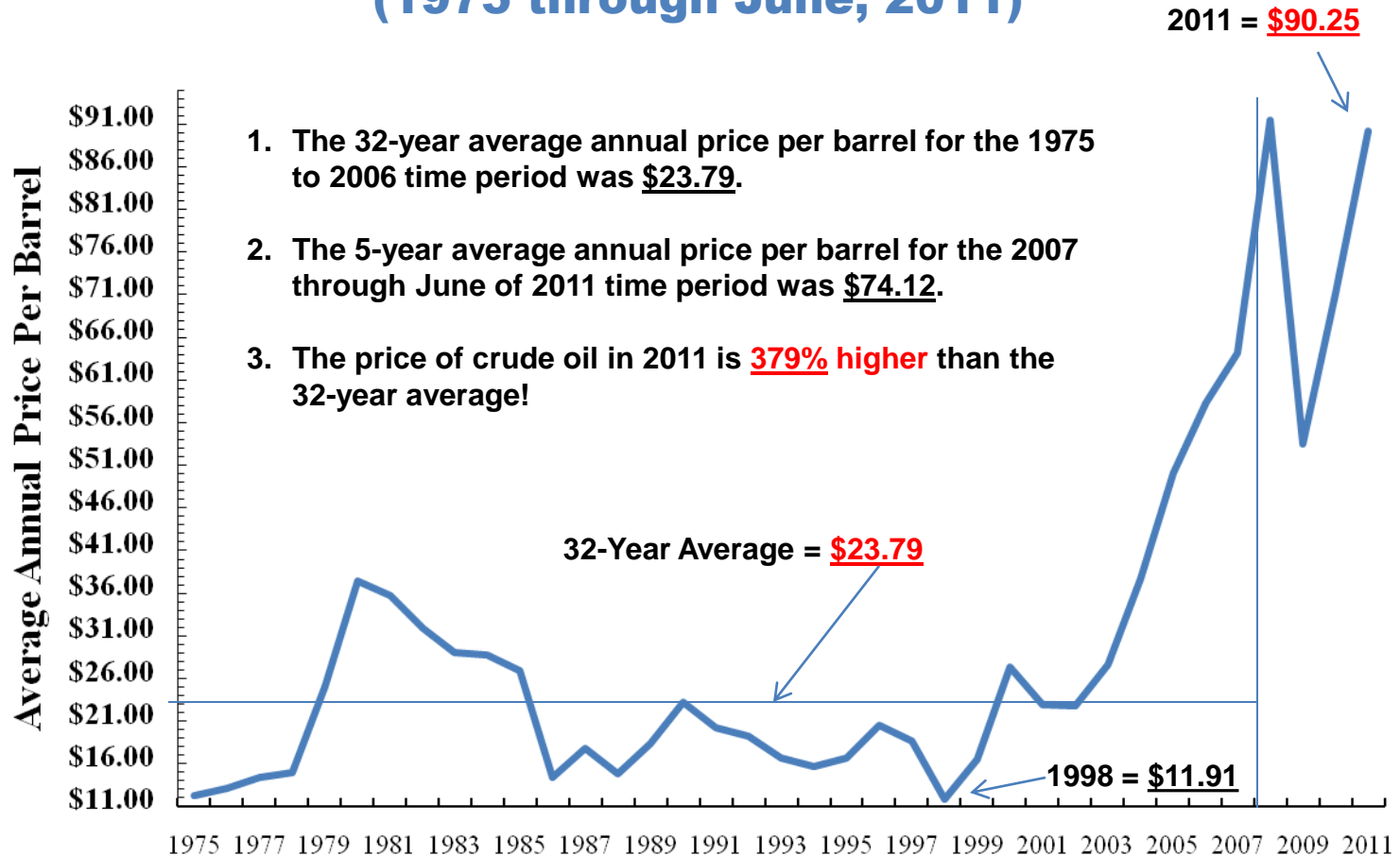
**This is No Longer the Case, Nor will It be the Case in the Future . . . . .**

## Average Annual Prices Paid Per Bushel for Corn by Cattle Feeders in the Central High Plains Mainstream Cattle Feeding Region (For the 1974/75 – 2010/11 Crop Years)



Source: USDA, Economic Research Service.

## Average Annual Price Paid Per Barrel for U.S. Domestic Crude Oil (1975 through June, 2011)



Source: InflationData.com, Historical Oil Prices Table and Updated May 13, 2011.

## **Total Live Weight Costs Per Head for Beef Cow-calf Operations, Plus Total Live Weight Costs of Gain For Producing Beef, Feeding Cattle and Producing Broilers in the United States in 2011**

<b>Major and Comparative Beef and Broiler Production Categories</b>	<b>Total Dollar Costs Per Head</b>	<b>Total Live Weight Costs of Gain In Dollars Per CWT</b>
1. Total costs for maintaining a beef cow and producing a calf, including land costs	<b>550 to 650</b>	---
2. Total costs for stocker cattle grass and pasture operations, including land costs	---	<b>85 to 87</b>
3. Total costs for feeder cattle back-grounding and growing operations that use primarily forages, including facility costs	---	<b>85 to 87</b>
4. Total full fed cattle on feed costs for cattle in central high plains feedlots that use corn and a high energy ration for steers and heifers, including facility costs	---	<b>97 to 105</b>
5. Total costs of producing broilers that use corn, soybean meal and a high energy ration, including facility costs	---	<b>44 to 46</b>  <b>(the total cost of gain for broilers is <u>57</u> dollars per CWT or <u>56%</u> less than for full fed cattle)</b>

Source: Bill Helming and business associates.

---

# The Total Cost of Buying and Finishing a Full Fed Steer in the U.S. is Much Higher in 2011 than was the Case in 2010

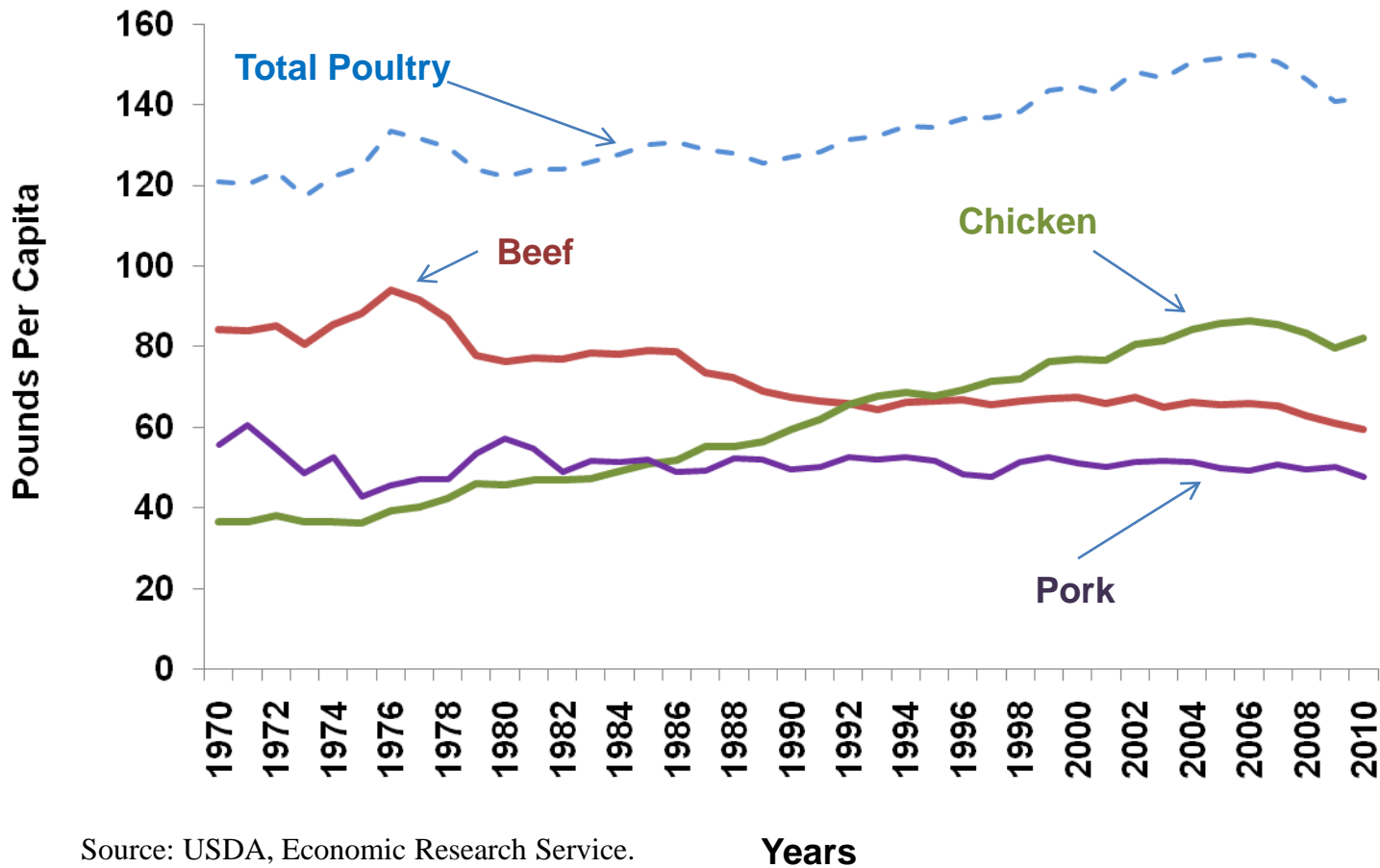
The per head total cost of a feeder steer, plus the cost of feed and care

<b>2010</b>	<b>2011</b>	<b>Increase</b>
<b>\$1,075</b>	<b>\$1,475</b>	<b>\$400 per head +37%</b>

Source: Sterling Beef Profit Tracker.

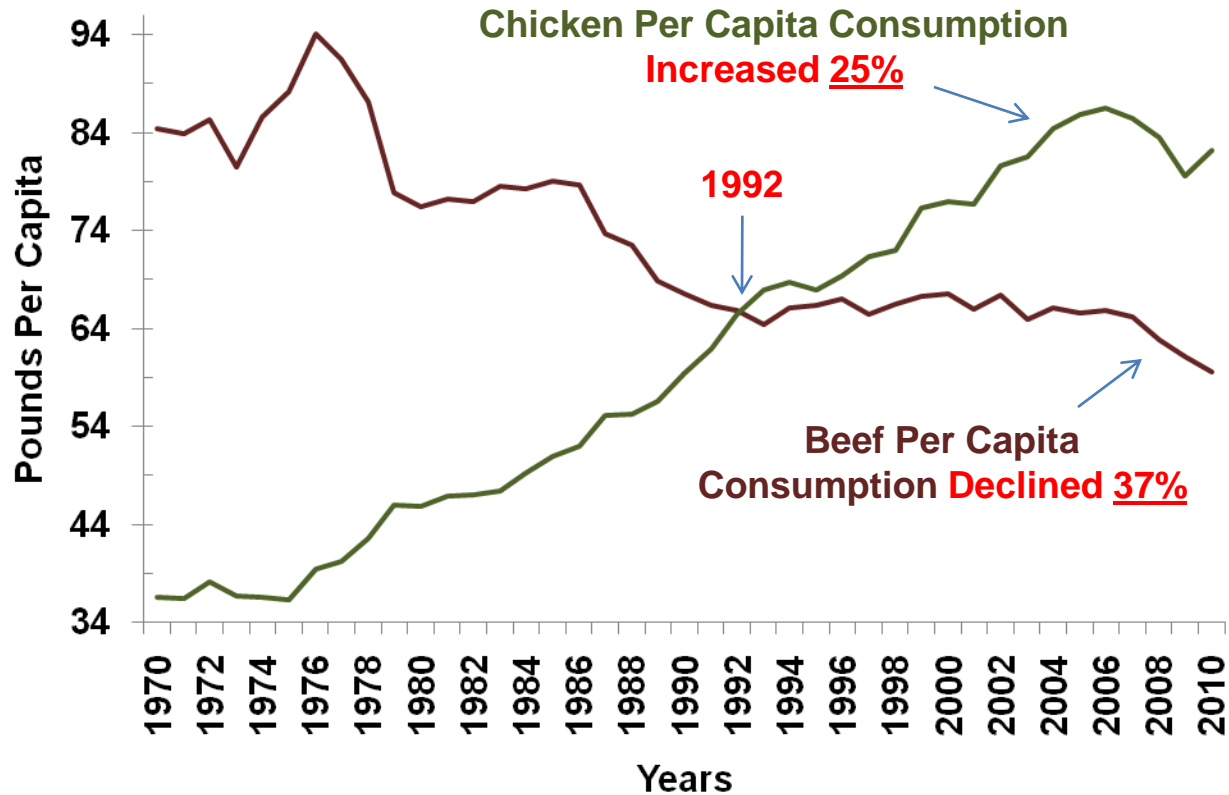


# The Annual U.S. Per Capita Consumption of Beef, Pork, Chicken and Total Poultry over the 41 Years of 1970-2010



Source: USDA, Economic Research Service.

# The Annual U.S. Per Capita Consumption of Beef and Chicken over the 41 Years of 1970-2010



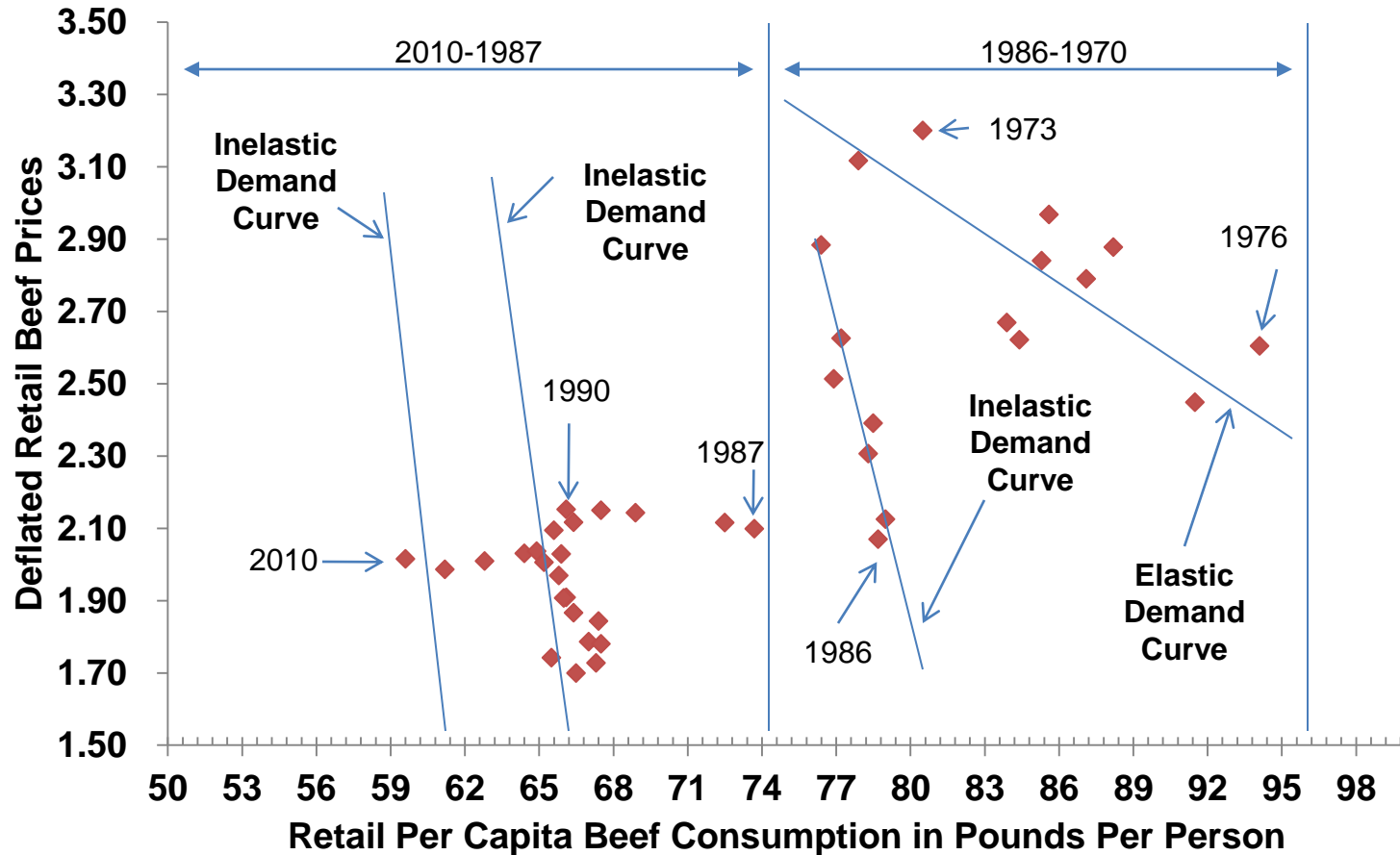
Source: USDA, Economic Research Service.

# Summary of the Increases and Decreases in Per Capita Beef, Pork, Chicken and Total Poultry Consumption in Total Pounds and Percentage Changes Within the 41 Years of 1970-2010

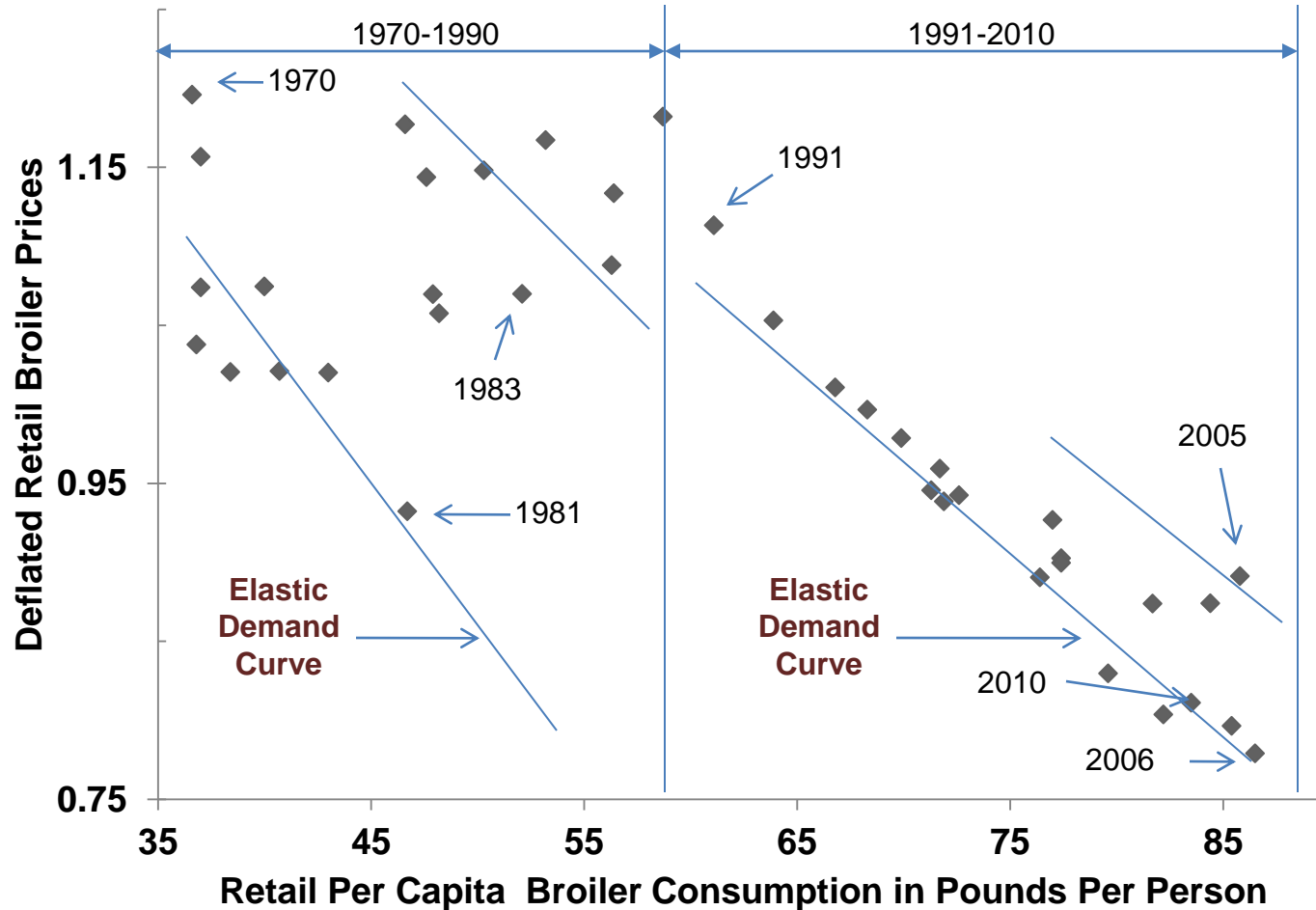
Major Competing Proteins	Per Capita Consumption Increases and Decreases	Percentage Increases and Decreases
1. Beef	Down <u>35</u> pounds	-37%
2. Pork	Down <u>13</u> pounds	-21%
3. Chicken	Up <u>46</u> pounds	+25%
4. Total Poultry	Up <u>21</u> pounds	+18%

Source: USDA, Economic Research Service.

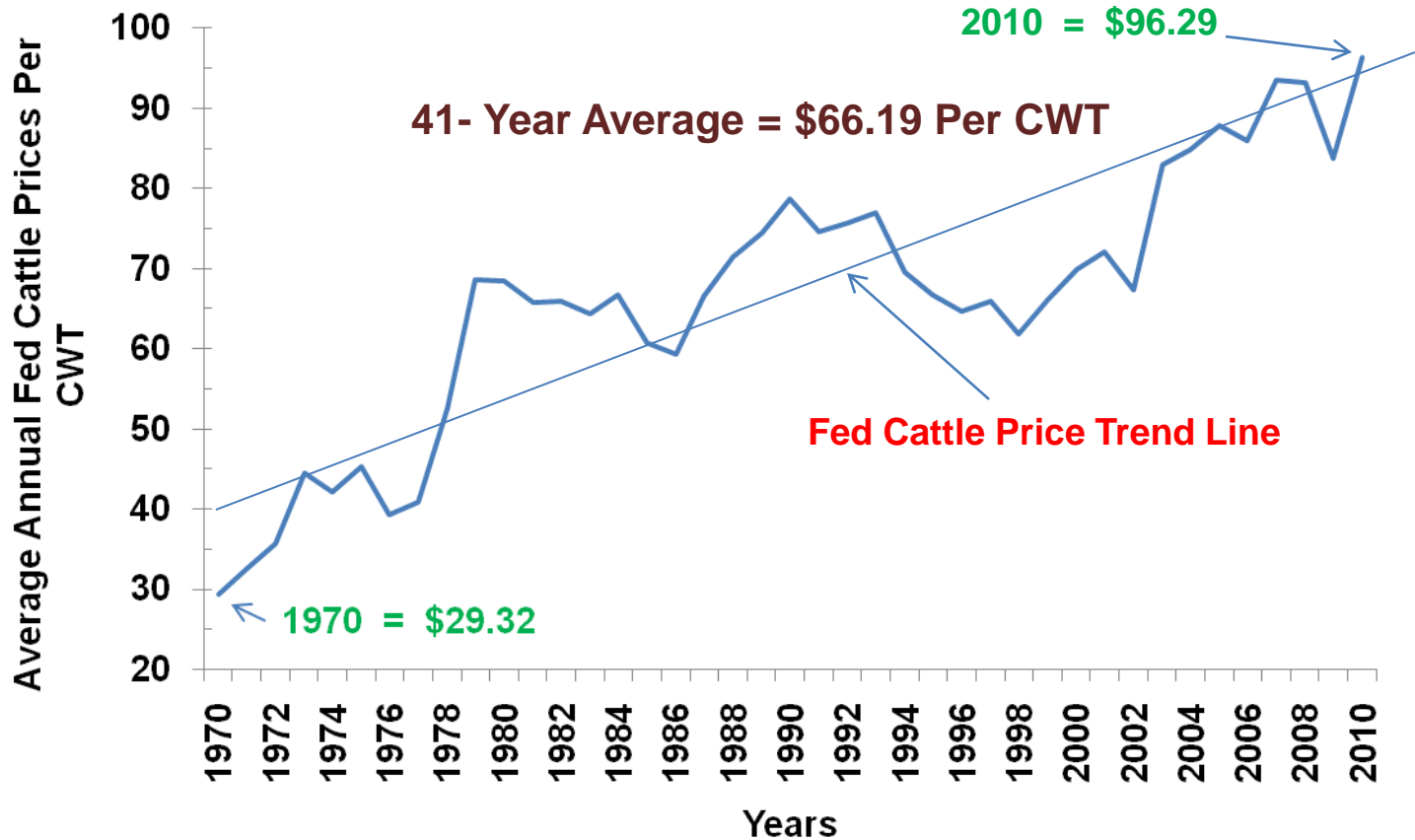
## Average Annual U.S. Domestic Consumer Beef Demand for the 41 Years of 1970-2010 has Declined and has Shifted to the Left (A Negative Domestic Beef Demand Trend)



**Average Annual U.S. Domestic Consumer Chicken Demand For  
the 41 Years of 1970-2010 Has Increased and Shifted to the  
Right  
(A Positive Domestic Chicken Demand Trend)**



# Average Annual U.S. Fed Cattle Prices Basis the Mainstream Texas and Oklahoma Panhandle Region Over the 41 Years of 1970-2010 (In Current Dollars)



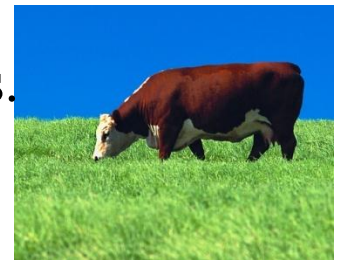
Source: USDA, Economic Research Service.

---

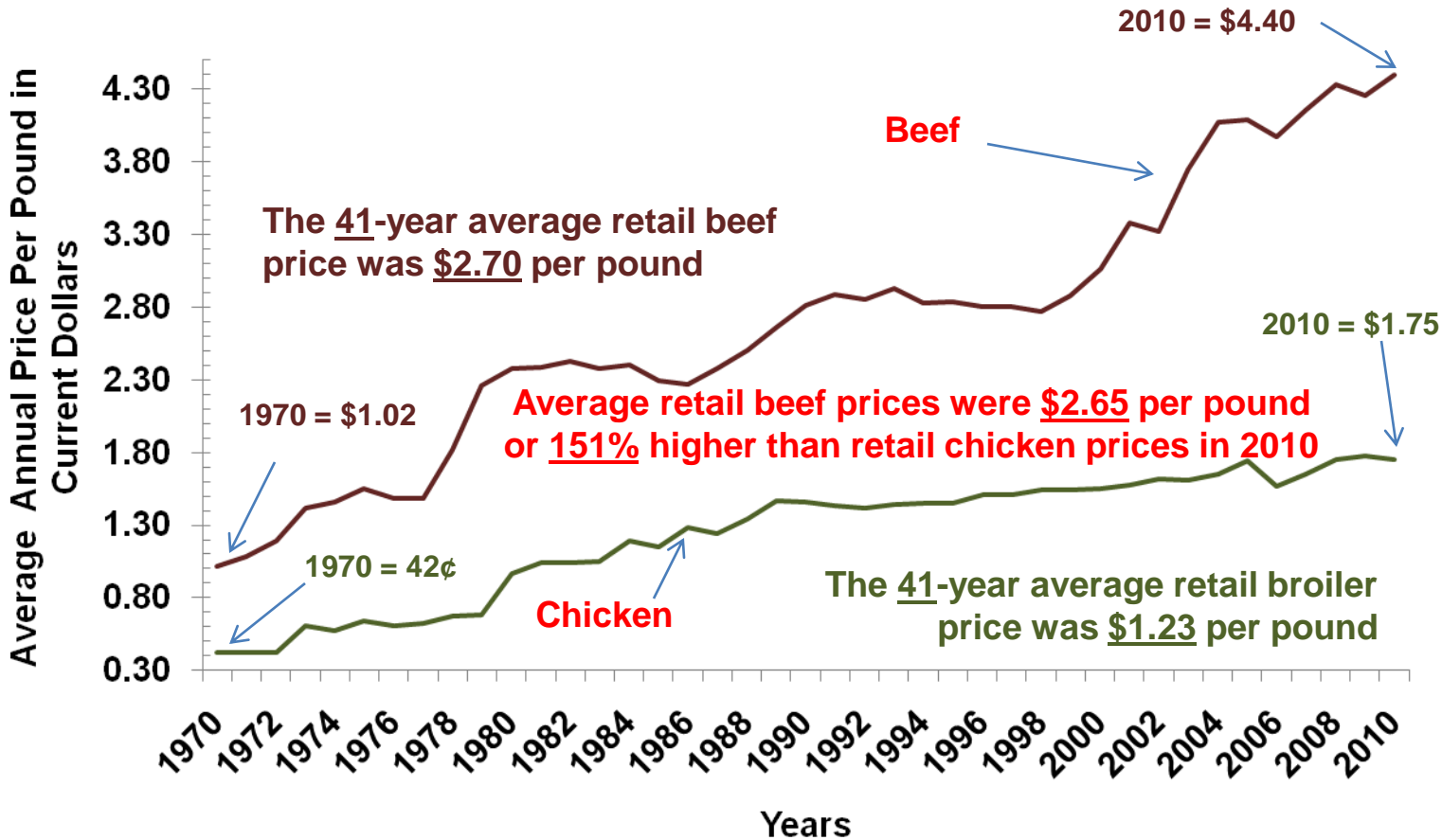
# The U.S. and Canadian Beef Supply Outlook is Positive and Generally Bullish for Beef Cattle Prices in the Years Ahead

## WHY?

- ▲ Because of the substantial declines in beef cow and calf crop numbers since about 1975.
- ▲ Because of the significant declines in per capita beef consumption, particularly since 1976.
- ▲ Because of the significant and very positive increases in U.S. and Canadian beef exports and improved beef export demand.
- ▲ The much higher cattle prices are not due to improved domestic consumer demand for beef. Domestic consumer beef demand in America has declined since the early 1980's.



# Average Annual U.S. Retail Beef and Composite Retail Broiler Prices for the 41 Years of 1970-2010

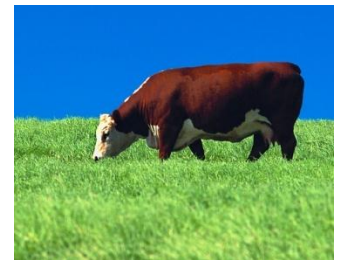


Source: USDA, Economic Research Service.

---

## The Sobering Realities Regarding the Domestic Consumer Demand for Beef in the U.S.

- ▲ Contrary to what many in the U.S. beef industry believe today or have been led to believe over the years, the actual inflation adjusted price/quantity domestic consumer demand data for beef and the per capita consumption of beef data clearly show that the domestic consumer demand for beef has declined and has shifted to the left over the past **41** years, including the past **10** years.
- ▲ Bottom line, the high and increasing costs of producing beef and the high and increasing price of beef at the consumer level (compared to chicken) continues to contribute to the declining domestic consumer demand for beef.
- ▲ U.S. beef cattle prices (in current dollars) are now at all-time record high levels *not* because of any improvement in domestic consumer demand for beef.
- ▲ U.S. beef cattle prices are now at record high levels primarily for the following two reasons:
  1. Because of reduced per capita beef supplies.
  2. Because of increased U.S. beef export sales and increasing beef export demand.

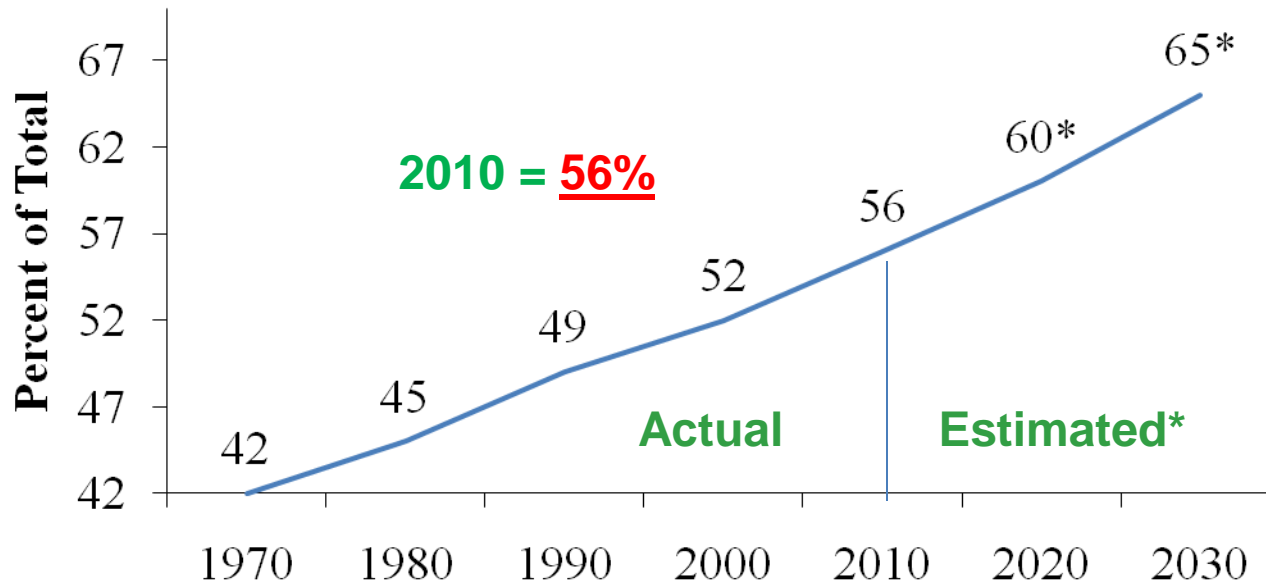


---

**America is Very Much a Hamburger  
and Ground Beef Society and Will  
Become Much More so Over Time**

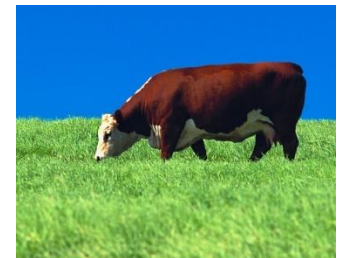


# Actual and Estimated Percentage of the total Pounds of U.S. Beef Consumption that Consists of Ground Beef (Hamburger) Over Time (1970-2030)

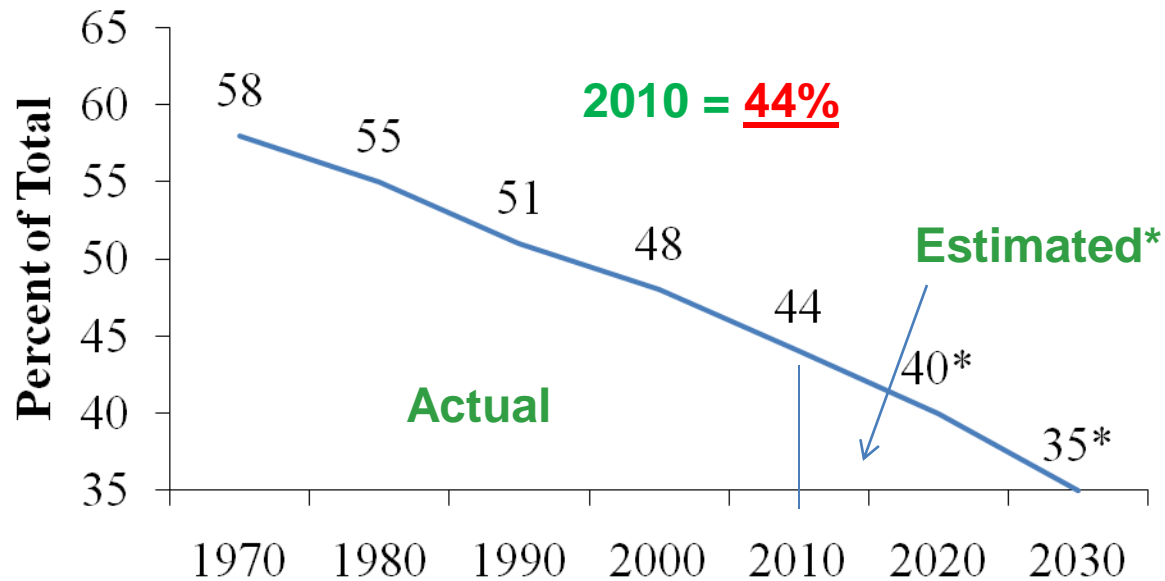


Source: Based on USDA annual cattle slaughter mix and per capita consumption data.

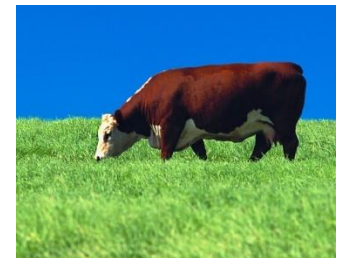
\*Estimated by Bill Helming.



# Actual and Estimated Percentage of the Total Pounds of U.S. Beef Consumption that Consists of Non Ground Beef (Whole Muscle Beef Products) (1970-2030)



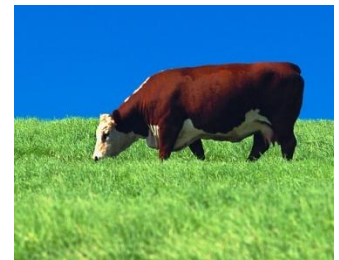
Source: Based on USDA annual cattle slaughter mix and per capita consumption data.  
\*Estimated by Bill Helming.



---

## Why the U.S. Consumption and Demand for Ground Beef has been and will Continue to Increase Over Time as a Percentage of the Total Beef Consumed

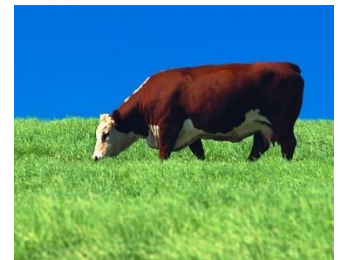
- ▲ About **50%** of the total U.S. beef consumed is at away-from-home eating establishments (restaurants and hotels of many kinds, for example), while the other **50%** of total U.S. beef consumption is at home.
- ▲ The large number of restaurants that emphasize hamburger and ground beef (such as McDonalds, Burger King, Wendy's, Taco Bell, Sonic, Five Guys Burgers and Fries, Smashburger and many others) encourage and promote increased hamburger and ground beef sales and consumption.
- ▲ The average price of ground beef at retail food stores of **\$2.29 to \$4.29** per pound versus **\$12.0 to \$22.0** per pound for *middle meats* is a major financial incentive for cost cautious consumers to purchase more ground beef.



---

## Why the Consumption of and the Consumer Demand for Ground Beef has been and will Continue to Increase Over Time as a Percentage of the Total Beef Consumed

- ▲ Ground beef (hamburger) is much more affordable to a growing number of Americans, compared to the much higher priced *middle meats*. This trend will likely be even more true over the next **10 to 20 years**.
- ▲ The American people generally love hamburger and the many broad-based and well established ground beef products that people and families buy, use and have enjoyed for many years.
- ▲ During the years of 2009, 2010 and even more so in 2011, retail food stores throughout the U.S. have been grinding record amounts of *middle meats*. They are doing so because ground beef is a much more affordable high quality protein product, compared to the much more expensive beef product *middle meats* (steaks and rib roasts, for example). Ground beef is much more price competitive with chicken.



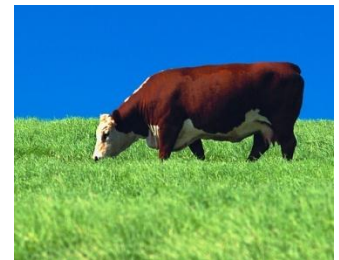
---

**By Far the Two Most Popular and Highest Volume Red Meat and Poultry Items Sold and Purchased in America's Food Stores and Restaurants Today and for the Past Several Years (in Pounds) Are:**

1. Ground Beef (Hamburger).
2. Boneless Chicken Breasts and Other Chicken Parts.

**Why?**

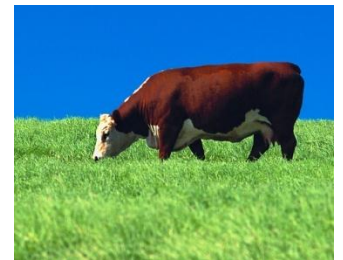
**Relatively Low Prices and Very Good Affordability  
For High Quality Protein Products**



---

**A very Important Part of the U.S. and Canadian Beef Industry's Business Model is Broken Even Though We Now have Record High Beef Cattle and Record High Retail Beef Prices**

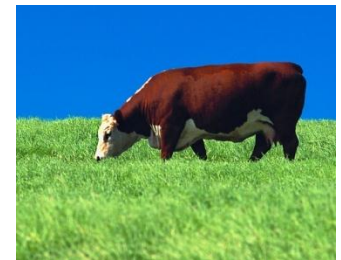
**This has Major Consequences and Is Really a Big Deal Longer Term**



# Where Does This Very Large Supply of Ground Beef (Hamburger) that is Consumed in the U.S. Come From?



- 
- ▲ At least **56%** of all beef consumed in the U.S. today is ground beef (hamburger) and this percentage is increasing. By 2025-2030, I conservatively estimate that **65%** of all beef consumed in the U.S. will be ground beef. Whole muscle beef products will account for **35%** of all beef consumed by 2025-2030.
  - ▲ Domestic consumer demand for ground beef is increasing because it is a very high quality product that most consumers love and because it is a much more affordable beef product and protein by a growing number of individuals and families. Ground beef is much more price competitive with chicken.
  - ▲ Domestic consumer demand for beef *middle meats* (steaks) is declining slowly because of the relatively high costs and prices and will likely continue to decline over the next **15 to 20 years** even though most consumers love the high quality beef *middle meats*.
  - ▲ I believe these important trends are essentially the same in the U.S. and in Canada now and will be generally the same over the next **15 to 20 years**.



**Since at Least 56% of All Beef Consumed in the U.S. Today is Ground Beef and Since about 11,128,000 head or 45% of all Annual Fed Cattle Marketings (which is Approximately 25 million head) End Up Going into Making Up a Significant Part (60%) of the Total U.S. Ground Beef Supplies,**

**It Makes no Sense for 100% of the Available Beef Cattle in the U.S. and Canada to Go through a Feedlot on a High Cost Corn and High Energy Full Fed Ration in the Years Ahead.**

**This is Why I Say that a Portion of the U.S. and Canadian Beef Production Business Model is Broken and Needs to be Fixed.**

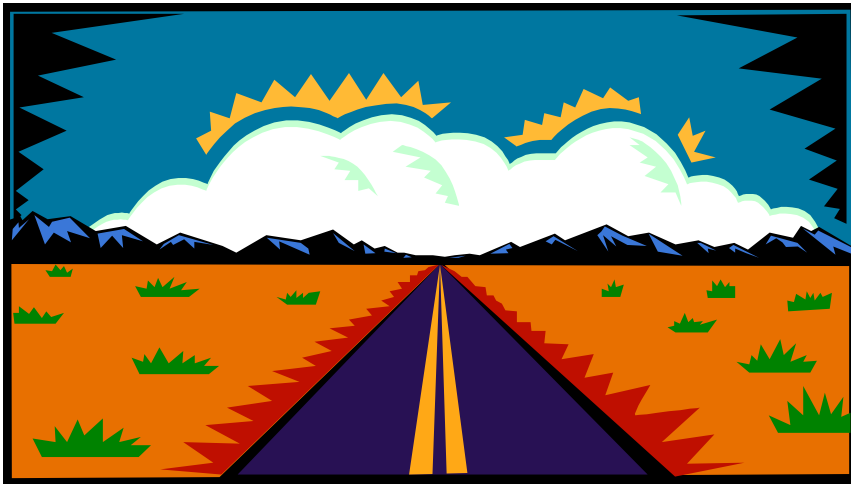
# Major Opportunities for the U.S. and Canadian Beef Producers and Cattle Feeders Over the Next 15 to 25 Years

- *Produce significantly* more ground beef product in response to the increasing domestic demand for and consumption of hamburger in North America.
- *Reduce significantly* the maintenance and input costs of meeting the increased domestic demand and consumption of ground beef in North America and becoming more cost and price competitive with chicken.
- Ground beef is a high quality product and also a very good source of protein.



# Both U.S. and Canadian Beef Producers and Cattle Feeders Have Been and Remain Committed to Going Down Only One Super Interstate Highway

*A Broken One Size Fits All Business Model*



- Full fed cattle only.
- One size fits all.
- High input costs.
- Ground beef consumption is going up.
- Middle meat (steaks) consumption is going down.
- Total per capita beef consumption and domestic beef demand is declining.

# The Major Opportunities for the U.S. and Canadian Beef Industries, Producers and Cattle Feeders over the Next 15 to 25 Years

Move towards three super highways and a *three sizes fit all* business model in America and in Canada

Half Fed Cattle for the Increasing Ground Beef Market

2



Grass Fed Cattle for the Increasing Ground Beef Market

3

1  
Full Fed Cattle For the Middle Meat (Steak) Declining Market

# Major Financial and Operational Objectives for the Three Super Highways for Beef

---

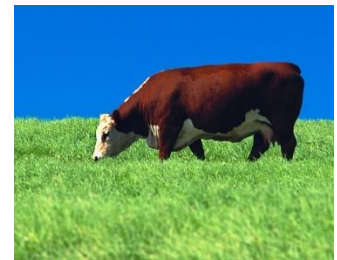
Full Fed Cattle	Half Fed Cattle	Grass Fed Cattle
Maximize the top line sales value with the emphasis on the higher priced middle meats	Reduce the top line sales value and optimize the bottom line with the emphasis on lower input costs and the production of ground beef	Reduce the top line sales value and optimize the bottom line with the emphasis on lower input costs and the production of ground beef
1	2	3

---

---

## Explanation of What the Half Fed Cattle Opportunity and Program Will be Based On

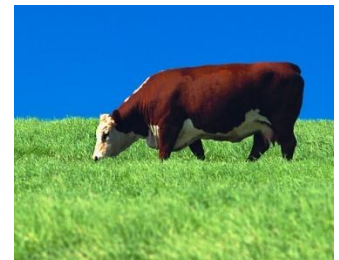
- ▲ These cattle will typically be on feed typically for **70 to 90 days** and the live slaughter weight will generally be **1,025 to 1,050 pounds**.
- ▲ These cattle will be on a forage-based growing ration with essentially no corn or other grains.
- ▲ The genetic makeup of these beef cattle will typically be less than average. These will generally be plainer cattle, including cattle that have Brahma influence and ear. The purchase cost of these cattle will typically be less.
- ▲ These beef and dairy half fed cattle will be used to help supply the growing domestic demand for and consumption of ground beef (hamburger) in America.
- ▲ The breakeven price (cost) of these half fed cattle will typically be **7¢ to 10¢ per pound less** than for full fed cattle.



---

# The Major Positive Trends and Facts Regarding the U.S. Beef Industry

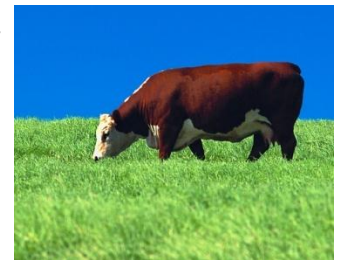
- ▲ U.S. consumers love beef, including ground beef (hamburger).
- ▲ In terms of dollar sales value, beef is the single largest component of the total U.S. agricultural and food industry.
- ▲ Total consumer beef sales for the U.S. in 2010 were **\$75 billion**.
- ▲ Beef producer, cattle feeder, wholesale and retail beef prices are now at record high levels.
- ▲ Beef product export sales and demand are positive and increasing.
- ▲ Beef cattle are ruminants and consume grass, forages and grains.



---

## The Major Negative Trends and Facts Regarding the U.S. Beef Industry

- ▲ Beef cow inventory numbers, per capita beef consumption and domestic consumer demand for beef have all been declining for many years.
- ▲ Beef production and cattle feeding costs are now at record high levels. This works to the competitive disadvantage of beef cattle producers and feeders. The beef industry has lost major market share to chicken.
- ▲ The market share for beef in 1976 was **34%** and declined to **24%** in 2010. This represents a loss of market share for the beef industry of **29%** in **35** years on a per capita basis.
- ▲ The higher beef prices go, the less beef consumers will buy, particularly of the higher priced *middle meats* and the more ground beef they will buy at relatively low prices.
- ▲ The U.S. beef industry (at the cow calf and stocker cattle level) is very segmented, fragmented and consists of very large numbers of small and high cost operations.
- ▲ There are today **750,000** beef cow calf operators in the U.S. (according to the USDA and Census data) and **80%** of these operators have *less* than **50** head of beef cows. Many of these beef cow owners continue to exit the business.
- ▲ The U.S. beef industry in the U.S. today is *not* integrated. This is a major competitive disadvantage for the beef industry.



---

## There are Relatively Large Numbers of Beef and Dairy Cattle Producers and Cattle Feeders and Very Small Numbers of Broiler (Chicken) Producers in the U.S. as of January, 2011

---

Major U.S. Beef, Dairy and Broiler Producer Categories	Approximate Total Number of Operations in the U.S.
1. Beef cow-calf owners and operators	750,000
2. Dairy cow owners and operators	62,300
3. Feedlots that have <b>1,000</b> or more head of capacity	955
4. Integrated broiler company producers	27

---

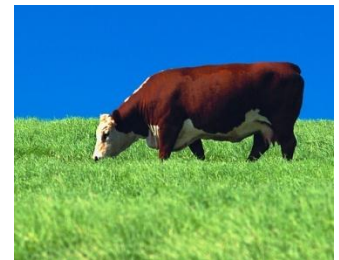
Source: USDA, Economic Research Service and independent and official broiler industry data.



---

## Major U.S. Beef Industry Trends over the Next 15 to 25 Years

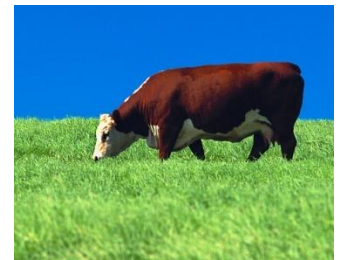
- ▲ Total beef cow and calf crop inventory numbers will very likely decline by another **3 to 5 million head** over the next **20 years**.
- ▲ There will be significantly fewer full fed cattle on feed over time and there will be further major excess cattle feeding and beef packing capacity.
- ▲ There will be less corn and grain used by the beef industry. There will be more and less expensive grass and forages used over time by beef producers and cattle feeders.
- ▲ Total per capita beef consumption and market share will continue to decline. However, the consumption of ground beef will increase significantly further over time.
- ▲ The total cost of producing beef will and must come down in order to make beef more cost and price competitive with chicken.



## Be Prepared for the U.S. Commodity and Stock Market Bubbles to Burst Sometime within the 2012-2015 Time Period

- ▲ When (not if) the U.S. economy goes back into recession and into a modern day depression sometime within the **2012-2015** time period, the U.S. commodity and stock market bubbles will burst in a major way.
- ▲ Fed cattle prices in the U.S. will, for example, **decline 30% to 35%** and will very likely decline to the **\$80 to \$85 per CWT** level from the **\$120 per CWT** in 2011.
- ▲ The Dow stock market in New York will very likely decline **55% to 72% to the 3,500 to 5,500** level from the **12,600 to 13,000** level in 2011.

**You Should Plan and Prepare Accordingly.**

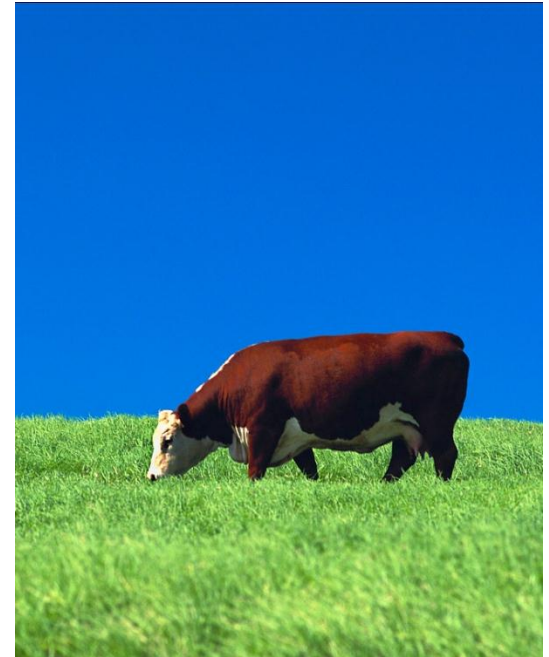


---

# My Conclusion and Recommendations

For all of us who love beef and have major investments and interests in the U.S. and Canadian Beef Industries, I believe we should all do the following:

1. Study carefully and seriously consider the obvious beef and competing protein supply, demand and price trends, challenges and opportunities that I have presented to you today.
2. Produce more high quality ground beef with lower maintenance and input costs by using more grass and forages and less corn, including reducing the size and weight of beef cattle. **Business as usual will not work in the years ahead.**



**God Bless You and Keep Smiling**