

Opportunities and Challenges for Cow/Calf Producers¹

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Introduction

The cow/calf enterprise has been a profitable enterprise over the last few years. Weaned calf prices have been unprecedented. It wasn't that long ago that 500 pound calves sold for \$60 per hundred-weight. For the last 4 years, 500 pound calves brought over \$125 per hundred-weight. These high calf prices helped cow/calf producers reduce some debt and "heal-up" from times when the cow/calf enterprise was not very profitable. Estimated returns for a cow/calf enterprise reached a record \$150/head in 2004 and remained over \$100/head in 2005. Since then, returns have been under \$50/head, with expectations for further declines in profitability. The cattle industry is a cyclic industry. The national beef cow herd inventory expands and contracts. When beef cow inventory is low, calf supply is low, and calf prices are high. When calf prices are high, beef cow inventory grows, causing an increase in feeder calf supply, consequently price of calves decreases. The cattle cycle has typically been about ten years. The current cycle began in 2004 following the longest cattle cycle in history (14 years due to a long liquidation phase). There appear to be a number of items currently impacting beef industry. Producers need to prepare and position themselves to take advantage of opportunities that present themselves that will have a positive impact on their cow/calf enterprise. Following are items that I think could potentially impact the cow/calf enterprise. Some of the items will pose challenges, but often with every challenge there is an opportunity that could enhance profit potential for the cow/calf enterprise.

Weak Dollar

The weak dollar has had an impact on the beef cattle industry. Foreign currencies can now buy more US product because of the difference in the exchange rate. Now, more than any other time, countries outside of the United States have a greater ability to buy our products and commodities. This "demand" is likely due to the weak dollar and also due to the foreign consumers' increase in income. This "demand" for product has nothing to do with the supply side of the equation. In the past, when US supply was high causing a low price, foreign countries had the ability to buy US products. Now, even with low supply in some agriculture commodities, export markets have been outstanding. As an example, Randy Blanc from Cattle Fax said at the 2007 Range Beef Cow Symposium that corn exports are the highest ever. We know there are other competing industries for corn and based on what corn prices have done over the last two years, the inventory of corn has not increased. Wheat and soybean prices are up. The impact that foreign currency can buy more of those products, has to have some impact on the price of these commodities for the US farmer. The weak dollar and its impact on corn price alone will impact the beef cattle industry.

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Opportunity: The beef cattle industry in the United States is considered a mature industry. One way to expand a mature industry is to increase export markets. Are your calves prepared to be sold into an export market (more information can be found at <http://beef.unl.edu>)?

Corn Prices

High corn prices usually have an inverse relationship on feeder calf price. High corn prices usually push down weaned calf prices. A common rule of thumb is that a \$1/bu increase in corn price results in about a \$10/cwt drop in calf prices. However that relationship has changes in the past two years, and calf prices have not declined as much as they would have by historical standards. A possible reason that we haven't seen a marked reduction in calf prices is that feeder calf inventory is the lowest its ever been in the last 30 years. In 2007, calf crop was about 37.4 million head which was down 0.4 percent from 2006. Another important reason is the use of distillers grains in feedlot rations. Use of this feedstuff results in a lower cost of gain (assuming corn price is held constant). Even though cost of gain is increasing, it isn't increasing as much as it otherwise would. So cattle feeders have not had to drop their bids on feeder calves as much to make them work. Also, high corn prices may impact grass and pasture prices. How much pressure that will put on grass and pasture prices is yet to be seen, likely very little. Irregardless of corn price, pasture land has steadily increased in Nebraska and many of the surrounding states.

High corn prices also impacts the feedlot industry. When the price of corn is high, feeders seem to prefer heavier (yearlings) calves entering the feedlot as compared to lighter (calf-feds). Yearlings tend to have higher ADG and spend fewer days in the feedlot, but their feed conversions are not as good calf-feds. Our systems data would suggest minimal differences in quality between calf-feds and yearlings when slaughtered at similar backfat depths and favors the yearlings. One of the challenges in yearling systems is to avoid over-weight carcasses.

Opportunity: If feedlots prefer heavier calves for feeding, this may be an opportunity for cow/calf producers to winter spring-born calves economically, then put weight on them while grazing cool and warm-season pastures. Calves could be wintered on corn stalk residue and supplemented for low to moderate rates of gain. In the summer, the price of distillers grains is less than in the winter. There is an increase in supply in the summer because feedlot capacity is low; therefore, demand for distillers is low. This system for calves might be preferred over a dry-lot feeding system, because in a dry-lot system, a producer would need to develop a nutrient management plan and be permitted by the Department of Environmental Quality.

Beef Cow Inventory

In a presentation made by Cattle Fax, they projected that beef cow numbers will not

increase this year. In fact they indicated that beef cows numbers that will be released this year will be slightly down compared to last year. Wide-spread drought has contributed negatively to building the cow herd. Beef cow slaughter was up 6.6%. In addition, high weaned calf prices has contributed to lower beef cow numbers. Instead of saving back more replacement females, producers have “cashed in” on the high prices by keeping only the needed number of replacements and selling the rest. Because of fewer breeding females, the supply of weaned calves has not grown and calf prices have stayed relatively high, despite high corn prices. Some have speculated that beef cow inventory will not increase any time soon. They suggest that because of the age of the beef cow producer, that these producers have also “cashed in” on high cow prices and don’t intend to get back in the business.

Randy Blanc from Cattle Fax said at the 2007 Range Beef Cow symposium, that beef production (more carcass weight) will increase despite fewer beef cow numbers. How can this be? As the price of corn increases, so will the cost of gain. At \$3.00/bu corn, cost of gain is about \$65/cwt, at \$5.00/bu corn cost of gain approaches \$85/cwt. If finished cattle sell for \$90/cwt there is not a lot of wiggle room. Beef output could increase if reproductive efficiency (calves weaned of females exposed) is increased. This could happen, but will likely require more feed inputs. The greatest loss of potential calves to wean is due to cows not becoming pregnant during the breeding season. Open cows is usually a result of cows calving in low body condition. Body condition is a function of nutrition. Another way to increase carcass weight is to increase cow size; therefore, increase calf size. The industry has gone this route and it was not very profitable. Big cows require more feed inputs and fewer big cows can graze a given set of grass resources and therefore fewer cows to spread costs over and impacting profit potential.

Another way to increase carcass weight is to use management systems that increase finished weight. We have researched systems comparing performance, carcass weight, and profit potential of calf-fed verses yearling systems. Our data suggest little differences in quality grade between calf-feds and yearlings harvested at similar backfat. Even though yearling systems means that calves are retained for a longer period of time (compared to selling at weaning), profit potential is as good or greater in the yearling system because yearlings are heavier at harvest.

Opportunity: Produce high quality calves with documentation. Also, investigate systems that can add value to your calves. Keep a “check” on mature cow size. You don’t want that to increase because there is a cost.

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Cow Costs

Cattle Fax indicates that cow costs have increased at least 20 to 25 percent over the last 3 to 4 years. It’s not hard to understand where the increase in cost is coming from. Fuel

cost have increased substantially. Labor costs have also increased. Wide-spread drought has contributed to increased price of harvested feeds. Pasture costs have increased. Pasture cost per AUM in southeast Nebraska was a little over \$16 in 1986, now the cost is \$30 per AUM. The summer time was once thought to be the cheapest time to feed beef females compared to winter. With the use and cost of crop residues, this may not be the case. Producers will need to continue to investigate and use management techniques that keep cow costs low. Feed is still the major costs in the cow/calf enterprise. Management to keep feed costs in check will be important.

Opportunity: Use crop residues to keep cow cost down. Distillers grains will be abundant, especially as more ethanol plants come on-line. This winter it doesn't seem that abundant, but I think this situation is temporary. Research indicates distillers grain works well in forage diets that are medium to low quality. Distiller grains are cheaper to purchase in the summer compared to fall and winter, there are demonstration projects that show techniques to bag and bunker distillers grain.

International Markets

December 2003 changed the international market for US beef products. Major beef export markets literally dried-up for US product. We have slowly and painfully regained some of those markets. Cattle Fax suggests that there \$85/head available for cattle producers that can meet specific criteria in the international marketing arena. Dr. Darrell Peel, OSU, indicated that projected 2007 beef exports will be close to 60% of the 2003 level. Some of the export markets have been difficult to open, but we have room to grow.

Opportunity: There are 4 different levels that a producer can enter the international beef export market. At all levels, a third party verification is necessary. The four levels are 1. Age, 2. Source, 3. Non-hormone treated cattle (NHTC), and 4. Antibiotic-free (Natural). The requirements and definitions will differ by country and program. Familiarize yourself with some of the program and visit with feedlot managers in regard to programs that they are marketing into. There is a fee for to be part of the program and a cost to you to get set up for auditing. Audits are "on-site" audits (more information found at <http://beef.unl.edu>).

Ethanol Industry

The ethanol industry has literally exploded in the Midwest states. Almost every day a new plant comes on line or a new plant is being proposed. The high price of corn many slow down expansion, but new legislation seems to be positive on ethanol production. I think the Midwest states are positioned well in the corn-cattle-ethanol triangle. The byproduct of grain-based ethanol production is a tremendous feed for cattle. The closer the cattle are to the by product, the greater the advantage.

Probably part of the increase in corn price can be attributed to the ethanol industry. But, as mentioned earlier, corn export opportunities have also contributed to the increase in corn price. The question is how will the ethanol industry impact corn production and

price. For the short-term, it appears it will keep corn prices higher than they have been in the past.

Opportunity: Distillers grains are an excellent feed source for beef cattle. Price of distillers is out of synch as to when it is used in the cow/calf enterprise. Price is low and supply is high in the summer compared to fall and winter. There are methods to purchase wet distillers grains when they are cheaper (summer compared to fall and winter) and store them to be fed in the winter (more information on storage methods found at <http://beef.unl.edu>).

Conclusion

Many of the items discussed fit more into “what if” scenarios. I think it is safe to say that the cattle industry has changed, especially recently with the weak dollar, high corn prices, high fuel costs, long cattle cycle, and drought to mention a few. Astute cattle producers will optimize biological and economical efficiency to increase profit potential of their cow/calf enterprise. For every challenge there usually is an opportunity. Prepare and position yourself to take advantage of the opportunities to enhance profit potential of your cow/calf enterprise.