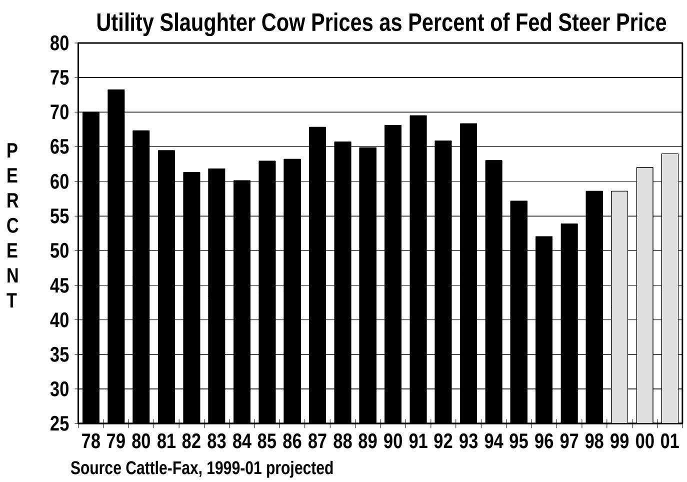
Cow/Calf Focus

 December 1999

Managing market cows and bulls

Market cows are an important part of the total revenue picture for cow/calf producers. Proceeds from the sale of market (slaughter) cows account for between 14% and 18% of the total annual income for an average cow operation. This is significant and suggests that timing marketing decisions on these cows is an important business decision.



Market cows and bulls (beef and dairy) contribute between 18% and 25% of total beef production annually, depending on the cycle and the season of the year. Most think that nearly all cow and bull beef ends up in ground beef; however, this isn't the case any more. It is estimated that nearly 44% of the total product weight generated from cows is sold as whole muscle products (ribs, loins, chucks, rounds). These products are used extensively in food service, family steak houses, fast-food outlets, airlines and supermarkets (quick-fix items). Market cows are an important beef source and will continue to be used in numerous food service outlets.

The market cow may become an even larger contributor to the bottom line over time. As more of the cow carcass is used in "higher-valued" market outlets, it's conceivable that market cows will bring a higher percentage of the fed market. Cyclically, the market cow is poised to increase in value during the next several years. Longer term, more cows are expected to be sold on a carcass-value basis. It is estimated that about 1/3 are sold on the rail today. This transition may allow more cow/calf producers the opportunity to negotiate a value grid for market cows and do a better job of hitting the market needs of food service and restaurant operations. This could mean market alliances may be formed that link producers with food service companies to more effectively merchandise market cows and bulls.

Cow/calf producers must continue to think of themselves as being in the "meat" business and not just the cattle business. The opportunity is to manage the market cow as precisely as the market calf and over time producers will be compensated for their efforts.

Time to capitalize

It looks as though we've finally turned the corner. Calf prices are up, beef demand has improved, production levels are set to drop and feeder-cattle and calf supplies are on the decline. As the next stage in the cattle cycle begins (lower production levels and higher cattle prices), many producers are trying to position their operation to take full advantage of the situation.

The last few years have not been kind to cow/calf producers. Profits have been hard to come by and many producers have been looking for ways to improve their efficiencies. Good planning now can result in better profits. Maximizing production during the next several years makes a lot of sense. Producing as many calves as possible during the upturn in the cattle cycle should improve returns. Calf prices are expected to trend higher and should be at levels where most producers can operate at a profit.

At the same time, the next several years will be a good time to concentrate on lowering feed costs, increasing the weaned calf crop and increasing weaning weights to maximize profits.

Many cow/calf producers have worked hard to improve their genetics and try to measure what those improved genetics are worth in the market place. Obviously, improved calf prices have a huge impact on the bottom line. It may be a good time to continue to improve cowherd genetics as well as improve herd health programs. Better quality cattle are expected to command increased premiums during the upturn in the cycle.

Cull-cow values are an area where some producers may be able to significantly improve their returns. If the situation permits (low feed costs), feeding cull cows for a certain period of time before market may make sense. This will accomplish a couple of things. First, the overall weight and quality of the cows will improve. Second, it will change the marketing period to a time of smaller cow supplies and better demand. Both should improve returns.

The next several years should be good ones for most cow/calf producers. But, with a little planning and maybe a few changes, they might even be better.

Grain prices may be poised to move higher

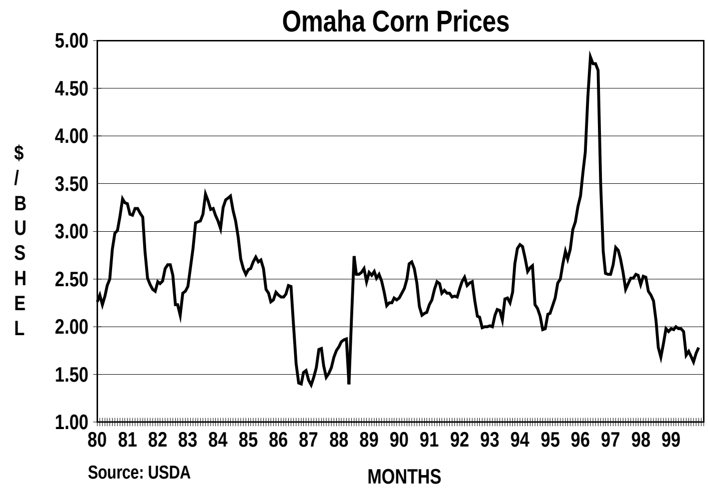
Things look good for the cow/calf producer, prices are up and demand for calves is excellent. The only factor that may derail the good times may be Mother Nature and her impact on grain production.

The 1999 corn crop was another good one, totaling 9.5 billion bushels. We will enter the 1990-2000 growing season with ending stocks equal to a year ago at just over 1.7 billion bushels. These fundamentals suggest that corn prices should remain close to the 1999 average and average about $2/bushel.

The risk of at least somewhat higher corn prices in 2000 is real and much of the risk is due to the current La Niña weather pattern. Dry conditions are common in much of the Western Cornbelt as well as parts of the Eastern Cornbelt. If the current La Niña persists as expected through the spring and summer, it would not be a big surprise to see much of the Cornbelt dryer than normal.

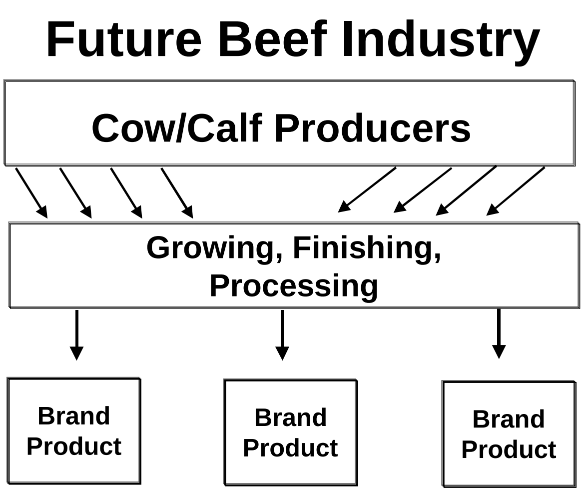
Dry conditions through the Cornbelt coupled with growing domestic usage and exports could change grain prices significantly in a relatively short period of time. A 50¢ per bushel increase in corn prices would lower the value of a 500-pound steer calf by about $7 per cwt, assuming no change in fed-cattle prices.

Corn prices have been trading at 12-year lows during most of the past 6 to 8 months and a 50¢ to $1/bushel increase in corn prices, while not anticipated, is not out of the question. Cow/calf producers are positioned to be solidly profitable during the next 3 to 4 years, but rising grain prices could cut into profits for producers. Producers that are inclined may want to consider some price risk management alternatives to guard against a big move up in grain prices.



Structural changes in the cow/calf sector

When the subject of a changing industry structure is mentioned, most think about the fact there are fewer but larger packers and feedlots in the country today. We all have an opinion about what that means for our business today as well as for our future. What few realize is that the cow/calf industry is changing as well, although the changes have been more subtle. Since 1965, there are about 500,000 fewer beef-cow operations under 200 head, while the number of operations over 200 head have grown by nearly 10,000.



The number of cows these operations account for have had a similar shift. In 1964, 1/4 of all beef cows were controlled by operations over 200 head, the latest data indicates this group now controls a third of the cows. In other words, the cow/calf sector of our industry is experiencing the same changes as other sectors.

What does that mean to cow/calf producers? In an industry with over 800,000 operations, 3% of those control roughly a third of all the cows. These ranchers derive the majority if not all of their income from cattle. In fact, if you take all operations over 1,000 cows, you find this group includes only 1,400 ranchers, yet owns over 2.5 million cows. These are the operators that are constantly looking for ways to increase profits. As we look at how our industry is changing, these are the people that are becoming more interested in joining other sectors to try to increase profits. Many of the alliances that have formed in the past few years are catering to this group of producers in order to grow.

Why do producers want to change the way they have been doing business for years? Most don't feel they are rewarded for superior genetics and management practices. By joining other producers with similar beliefs and goals, they are trying to own their calves from birth to slaughter and beyond. This is an attempt to gain margins that others are making on the cattle from the time the calves leave the ranch and spread out their risks at the same time. If these groups can continue to grow and prosper, it would undoubtedly accelerate consolidation as these producers seek to expand their operations, taking on more country and cows.

Census of Ag Data

	1964	1982	1997
No. of beef cow operations			
With less than 200 head	1,306,709	933,230	777,143
No. of beef cow operations			
With more than 200 head	17,833	24,468	27,452
Pct. of beef cows in various size opeations			
With less than 200 head	76.4	69.5	66.8
With more than 200 head	23.6	30.5	33.2

North Central Plains

The improving calf market of 1999 has benefited many cow/calf producers in the Northern Central Plains. There are many concerns on the cow/calf producer's minds as we approach the new century. Weather and land conditions are always a factor for ranchers and farmers. Though feed supplies were plentiful thanks to the wet spring in 1999, conditions turned dry through the last half of the summer. Throughout most of the region there was very little moisture from mid-July until some regions received moisture in December. On average, there is plenty of hay to carry producers through the winter. Moisture this winter and next spring is critical for both feed costs and available grazing for 2000. The average cost of hay before delivery charges has been $40 to $60 per ton.

Land availability has become a bigger issue over the last few years and is on the minds of producers who ranch near tourist areas or utilize government land for grazing cattle. A large number of tourist spots, which once were large ranching areas, have lost acres to development. Many producers have had to either diversify to accommodate some of these changes (outfitting or guest ranching) or sell their operations for development. The future for many ranching operations is directly tied to whether they will be able to graze on government land. Without government grazing, some producers will be forced to reduce their herd size, relocate or may go out of business.

Most ranches that have been sold recently are being bought by investors who are not directly related to the beef industry. The end result is higher land values, driving the cost higher to run strictly a cow operation (from $2,500 to $5,500 a cow unit). This type of financial burden makes it very difficult to borrow money to purchase land and maintain a positive return, even with projections for a stronger calf market over the next several years.

The way cattle are marketed has changed dramatically over the last 15 years and this trend will continue over the next 5 to 10 years. More producers own their calves longer, either in a background or stocker phase or placing them into feedlots or a combination of both. The Cattle-Fax Summer Cow/Calf survey indicated 72% of Cattle-Fax members would extend ownership of their calves versus selling at weaning, compared to 42% three years ago.

More producers are marketing their cattle through an alliance or cooperative. Beef operations that have been able to identify and capitalize on what the beef industry wants have been most apt to be part of a marketing agreement that allows them to receive premiums for their cattle.

Marketing arrangements that control genetics and production practices of cowherds to produce a certain type of calf will continue to grow during the next decade. Vertical cooperation will be important to the beef industry during the next 10 to 20 years.

West/Northwest

After a very dry summer, fall moisture has been adequate through most of the Northwest including the top third of California. In some cases near the coast, an abundance of precipitation has caused some challenges. However, the biggest challenge has been the lack of precipitation in the West from Sacramento south.

Winter grazing conditions are **very poor**; and in some cases, hay is not available to maintain cattle. A good deal of moisture is needed to maintain or expand cow numbers in the West. An even bigger threat to cow numbers continues to be the issue of public grazing and the use of public lands.

The availability land for grazing continues to be a hot topic in the West. A very large portion of the grass or rangeland in the West is publicly owned. If grazing rights were forfeited, a severe reduction would take place in the number of cows in the West. Other agriculture land uses such as vineyards and orchard farms have forced ranchland out of production because they have a greater return per acre than ranching. Expansion of the U.S. cow herd will take place over the next four to five years; however, weather, the use of public lands and the competition from other sectors of agriculture may limit expansion capabilities in the West.

The trend of cow/calf producers maintaining some portion of ownership after they leave the ranch has become far more common over the last few years. This is often done through alliances, co-ops or partial retained ownership. Producers are utilizing video and direct sales more to market their cattle. Furthermore, ranchers are discovering ways to add value to their calves and are receiving compensation for doing so; thus, producers are able to maintain some of the revenue that would otherwise be lost.

Consolidation as well as integration is a nationwide trend that has held true in the West. Feedlot bunk capacity has not changed much in the Northwest; however, fewer companies are controlling a larger percentage of the total cattle on feed. A small number of large feedlots are not only feeding a larger percent of the cattle, they are also controlling or contracting a larger percentage of calves, stocker cattle and feeder cattle. In short, cattle in the West are being controlled by fewer and larger operations.

Southern Plains

The Southern Plains, primarily Texas, is a major cow/calf region, with 22% of the U.S. beef cows residing in Texas and Oklahoma. It has been generally dry over the past four years and liquidation has been noted. This region historically has been more responsive to weather and feed supplies than cattle prices in determining expansion and liquidation plans. Over the past 30 years while the U.S. cow herd has contracted by nearly 10%, the Southern Plains region has lost only 3%.

Despite favorable calf prices, the South Plains area is expected to be slow to respond and expand due to dry conditions and limited feed supplies. Increased moisture is needed in the bulk of this area. When growing conditions allow producers to grow cow numbers, many will just be building numbers back to where they were before the drought began.

Many producers have shifted their marketing strategy over the past 10 years and are now retaining part or all of their calf crop. Some retain through the back grounding/stocker phase and some all the way through the feedlot. Many producers have changed their operation over time from a straight cow/calf operation to a combination cow/calf, stocker operation. This has given them more flexibility in marketing as well as a way to cope when feed supplies are short. Increasing numbers of producers are involved in alliances, and those that retain ownership through the feedyard are selling more cattle on grids.

Land availability is a concern due to urban sprawl, although this is not as big as an issue as in some other regions of the country. With low grain prices and the present farm program, pastureland is not expected to be broken out for crop production.

Southeast

Weather played havoc in 1999 with many producers throughout the Southeast. Drought-like conditions forced cow/calf and stocker operators to move their cattle earlier than normal and most have been unable to carry much inventory for 2000 grazing programs. Hay supplies are tight for much of the region, especially in Tennessee, Kentucky and the Virginias. Fescue hay is roughly $40 to $55 per ton, before delivery charges. However, there are several other feed sources for producers to utilize through the winter. Moisture through the winter and spring will be the key factor in determining how much grass will be available for grazing in the year 2000.

Available grazing will be the driver of the stocker-cattle and bred-cow market this coming spring. There is a very small number of stocker cattle projected to be available in many parts of this region. The cow herd is projected to be slightly smaller over the next couple of years due to dry conditions. If grazing conditions improve, stocker-cattle and bred-cow prices will move higher.

Losing land to urban sprawl is a concern for many producers in the Southeast. Most of the metropolitan areas in the Southeast are growing outward and purchasing land away from cattle producers for development. The rise in land values and taxes is making it difficult for some producers close to these areas to remain strictly cattle producers. There are other industries which have and will continue to take acres away from cattle producers — timber being one of the biggest ones.

Cattle producers over the next several years will look to change their production practices to increase the quality of their cattle. As alliances and cooperatives grow, producers will look to produce cattle to fit a specific need.

Cattle-Fax terminology

Currentness refers to how current feedlots are in their marketings of fed cattle. Very current indicates that feedlots are marketing cattle aggressively. Uncurrent indicates that feedlots are not marketing cattle effectively and that there are too many market-ready cattle available for sale.

Projected fed-cattle marketings are Cattle-Fax supply projections for the next six months. The projections are based on placements, shipments, inventory and carryover data collected from Cattle-Fax member feedlots.

Shipments are the number of cattle that left Cattle-Fax member feedlots and are destined for slaughter. This number does not include cattle that were removed from inventory due to death in the feedlot or sent out of the feedlot to grass.

Placements are the number of cattle placed into Cattle-Fax member feedlots. Placement data collected from feedlots includes the number of head placed, average weight, sex and the month the cattle are expected to be marketed.

Carryover is the number of cattle in the Cattle-Fax database that were projected to ship in a given month and were not shipped — so the cattle are carried over to the next month. The carryover can become too large and pressure fed-cattle prices lower because of the large supply of market-ready cattle. A carryover percentage of about 33% is average. If the carryover percentage grows above 35%, shipment activity has been slow and there may be more market-ready cattle available than needed.

Choice/Select spread is the dollar difference between the light-Choice boxed beef cutout and the light-Select boxed beef cutout.

Boxed-beef cutout values are published twice daily by USDA. They are an estimated composite of boxed beef values based on Omaha carlot prices of fabricated boxed beef cuts for each primal group. The respective boxed primal prices are then combined using a weighted average based on industry cutout yields. The boxed beef cutout is reported in dollars per hundred weight ($/cwt) and represents the wholesale value for beef of the Choice or Select grade.

Hide and offal value or drop credit is the value of all the non-muscle cut-type items that result from the slaughter of fed cattle. It includes the hide, which is the most valuable and accounts for about 70% of the hide and offal value, and all of the organs, bones, tallow and blood. The hide and offal value is reported as $/cwt weight of a typical live steer.

Trade volume is the number of cattle that Cattle-Fax analysts have picked up for the week that Cattle-Fax member feedlots sold to packers as cash sales.

Weekly supply is the number of cattle estimated to be ready for market for the week.

Net weeks are the number of five-day weeks in the month excluding holidays. Each day equals 0.2 weeks. Net weeks are used to calculate weekly averages for various monthly data series since each month has a different number of week days. Net weeks are used to make monthly data comparable.

F.I. slaughter (federally inspected slaughter) includes all plants where federal or state employees perform federal inspections.

Commercial slaughter is slaughter that is both federally inspected and non-federally inspected but does not include farm slaughter.

Little known fact

According to the last Census of Agriculture, 91% of U.S. beef-cow operations had less than 100 cows and controlled 50% of U.S. beef-cow herd. Less than 1% of beef-cow operations had more than 500 head, and they controlled 15% of the U.S. beef-cow population.

Little known fact

U.S. beef production per cow has more than doubled since 1950 — increasing from 228 pounds per cow in 1950 to 622 pounds per cow in 1999. This increase is due in part to heavier weaning and yearling weights and better feedlot performance due to better nutrition, health and implant programs. Commercial-calf slaughter has declined by 81% from 1950 to 1999, allowing feedlots to add extra weight to the cattle before they are slaughtered as fed cattle.