



# Economic Drivers of the Beef Industry

## Let the Good Times Roll

*CattleFax CEO Randy Blach said all the stars have aligned for the cow-calf business.*



CattleFax CEO Randy Blach said we are enjoying the best profit times in the cow-calf industry in history and he predicts that to continue even as the national cow herd starts to increase.

“We are in a unique time in this industry, where, let’s face it, it’s never been any better,” CattleFax CEO Randy Blach said Friday morning, Sept. 5, at the Hereford Genetic Summit. Blach gave insight about what the markets are doing and major changes to come.

Although there is still major drought in the West, conditions have improved significantly. “The result of the improvement is we are going to have a record corn crop this year,” Blach said. “We’ve also totally rebuilt our hay inventories. So we have feed reserves that we have not had since we started chasing ethanol in 2007.”

He said that although farming has had a great run, it’s going to become more of a breakeven business for the next several years, and the livestock sector will generate more profits. The good news is that pasture and range conditions, in spite of drought, are much improved. Charts show that the grazing conditions are the third best they’ve been in the last 20 years.

“That’s what it takes. It takes green grass and profitability to

expand the nation’s cow herd,” Blach said. “We haven’t had those two things, together, in the last 20 to 30 years. Don’t apologize for it. We need to be paid for these businesses. We need to be paid to run these operations and have enough profitability that they are sustainable.

“We are enjoying the best profit times in the cow-calf industry in history,” he continued. “And they are going to stay very good the next several years. These calf prices are not going to get a lot higher than where they are right now. They don’t need to. But we will enjoy calf prices on top of \$2 for quite some time. I would challenge you, that this is the time to make some investments in the future of your business. You’ve got some jingle in your pocket, make some of those investments that are going to pay dividends, 10 and 20 years down the road. It doesn’t matter what kind of business we are in, we all have things that we can improve.”

Cow slaughter is declining, Blach pointed out. That reduction is the reason why ground beef prices have risen. It will continue to decline as we go into 2015.

“We are expanding quickly,” Blach said as he pointed out that heifers as a percent of fed slaughter animals are reducing. “We are responding to the economic signal to keep more heifers and to slow down the rate of cow slaughter. As a result we will see the first increase of any significance in the number of beef cows as a nation on Jan. 1. By next year, we think we will increase another 700,000 to 800,000 head. So basically a million head increase by January 2016 and more shortly thereafter.”

Then he asked the questions, “Can we maintain that? Can we stay profitable at those numbers? Yes, we can go from 29 million

beef cows to 32 million beef cows and still maintain a very profitable industry. As long as we grow demand for our product.”

Blach said we must continue to grow demand at least 1% a day, and then, even with adding more cows back into the herd, he estimates cow-calf producers would still make approximately \$250 a head.

“What is the No. 1 most profitable thing to us today as cow-calf producers,” Blach asked the group. “A live calf. And what’s the Hereford breed the best at doing? Making live calves. That’s a short-term opportunity. Continue to focus on that, because they can’t make us any money if we don’t have a live calf.”

Blach said the data show that on a 25-year average in a commercial operation, it takes 1.5 calves to pay for a bred cow. He figures that if a 550-lb. calf brings \$240 to \$260 per hundredweight (cwt.), then a bred cow should be worth between \$1,980 and \$2,360. He added that because there is so much country understocked or destocked, there is an increase in demand driving up the prices for replacement females.

“The bottom line is, we have an industry that’s shrinking,” Blach said. “So what I see is, as an industry, if we don’t grow these operations and grow these herds while we have a little jingle in our pocket, we might only have enough beef to fill a little corner of a plate.”

The U.S. will be at its low in fed cattle in 2015, and then the numbers are going to increase.

Blach reminded seedstock producers, “You’re not in the cattle business, you are in the protein business, the beef business. That’s the end game. If we would look at it that way, we would get where we need to be a lot quicker.”

Cattle feeder margins have steadily deteriorated since the 1980s as availability of cattle and

capacity get more out of balance, Blach pointed out. And in the last 12 to 18 months, feeders have enjoyed some profitability, but that’s quickly shrunk as feeder calf prices have grown in response.

“The only people that are really going to make considerable money in the next few years are the ones that run the factory,” Blach said. “Seedstock operators and cow-calf operators will make all the money in the next two to three years. So you are in a great position. But the people that buy your product are going to have very, very thin margins. So understand that.”

Feeders buy cattle hoping to find a little bit of profit in them, Blach said. But if they don’t have carcass merit, then those feeders aren’t going to make any money. Also, carcass weights have continued to increase, and, Blach said, he sees no signals to stop or reverse that trend.

Blach bluntly said that he thinks quality grade is an area that the Hereford breed has really lagged on. The industry and market are demanding more cattle that grade Choice. Because feeders’ margins are so tight, they need to be able to cash in on grid premiums to help them stay in the game.

“I look at this as an opportunity for the Hereford breed,” Blach said.

He reminded producers that pork and poultry production has been flat, but they are responding as well. He expects pork and poultry production to be up 4% to 5% by next year, which will result in even lower prices for those competing proteins. He said fed cattle will be trading at \$135 to \$170 over the next several years.

The U.S. is still the No. 1 beef producer, even though there are a lot of countries with more cows. The U.S. is able to produce more because of grain-fed production systems. Most of the other countries are grass-finishing cattle.

“We have a major opportunity, a major responsibility even as one of the world’s leading meat producers to help feed the population increase that we are going to see over the course of the next two to three decades,” Blach said. “Think about what your role is as a breed in the changing dynamic.” **HW**

“I would challenge you, that this is the time to make some investments in the future of your business. You’ve got some jingle in your pocket, make some of those investments that are going to pay dividends, 10 and 20 years down the road. It doesn’t matter what kind of business we are in, we all have things that we can improve.”

— Randy Blach

# Focus on Feed Efficiency, End-Product Merit

*Keen Jim shared what feeders and packers are looking for.*

**D**r. Kee Jim, veterinarian, founding partner of Feedlot Health Management Services Ltd., and owner of G.K. Jim Farms and affiliated partners, enlightened Hereford Genetic Summit attendees about what's important to a cattle feeder, key issues and trends affecting the cattle feeding industry, and how seedstock producers can improve based on economic signals from cattle feeders and packers.

## Feeder concerns

First, he explained to attendees that what affects the profitability of cattle feeding is procurement of inputs (or how much is spent on cattle, feed and other costs), production (health and nutrition, animal husbandry) and marketing (how and for how much the cattle are sold).

"Generally as livestock people we are very focused on production. We want to do things right, we want to raise the right kind of animals, we want them to be healthy and all these things. But, you can survive as a cattle feeder being fairly limited on production capabilities, as long as you get the buy and the sell right," Jim said. "It's getting them bought and sold right that affects whether you are going to succeed or not. You can be very good at production but if you get it wrong on the marketing side, you get the markets wrong, or you've got too much inventory at the wrong time, you will fail miserably. I think that's one of the fundamental disconnects when you look at it from the cow-calf perspective."

Jim explained that the overarching issue driving prices is a shortage of feeder cattle and an oversupply of bunk capacity and hook space at packing plants. Although, in the last several months, the cattle feeding industry has experienced record profitability, going forward, it will be a different story as the market corrects.

He predicts that cattle feeders and packers are in for a rough ride in the next few years. Total equity requirements to participate in the business are at all-time highs because of high prices. Combine that situation with increased volatility of both feed and cattle prices, and it will be difficult for feeders to stay solvent. Other issues are environmental compliance, sustainability, animal welfare concerns and the rising cost of labor.

"The cattle feeder will hold true to our historical behavior and get ourselves into a wreck," Jim said. "I guarantee we will, because we will continue to pay up for the feeder cattle. Why are we doing that? Because we are in the feedlot business. It's a very strange business because we are competing for a finite supply of something on the input side. You have the input I need and markets are very efficient."

As long as the demand for grain-fed beef continues, someone will feed cattle, Jim pointed out. The players constantly change in the industry, but someone will do it if the demand is there.

"The feedlots that embrace technology and get the marketing right will survive and the global demand for high-quality grain-fed beef is driving the cut-out value to levels that we never envisioned it could," he said.

## Feeder value

"As a feeder, I don't think I can really demand anything, I can just buy what people are producing. I can pay more for what I like, and pay less for what I dislike. But, there are other key things that will drive producers across North America to produce the cattle that they do. The fundamental thing is to fit the cow to the environment. And you produce the type of cattle that maximize the profitability for you when you sell your animals. That may or may not be connected to what I want because of the wide variation of climate across North America."

But what determines the value of a feeder animal to Jim is average daily gain, the conversion, the health outcome. It's also based on his perception of what carcass value will be: the yield grade, quality grade and marbling.

"Also, I like if they're bigger cattle and I can take them to a higher weight, in these times with lower corn and high prices," Jim said. "I've got lots of margin to put on more pounds so the bigger cattle will demand more money."

But there's no way to know exactly how cattle will perform, Jim said. "All I can tell you is historically, when I feed those type of cattle from that location, from that weight, that sex, etc. etc. what my long-term averages have been and I will base my bid on that."

He continued, "Feed conversion is a very critical thing. I think it's a very important thing for the Hereford breed to be working



Cattle feeder and veterinarian Dr. Kee Jim said feed conversion is a very critical thing. He said if we can prove Herefords have better feed efficiency the value of Hereford cattle as feeder cattle will improve.

on. If we could demonstrate that Hereford cattle truly do have better feed efficiency and we select for that, the perception and the value of Hereford cattle as feeder cattle will improve. Currently, the perception is ambivalent at best. I think it's a critical thing for us as a breed to get on this project and determine, amongst the wide genotype that we have within Hereford, where the best converters are. It's one of the few things that will be a benefit all through the chain. It will be a benefit on the female side in terms of the amount of feed that's required and it's a benefit in the feedlot. It's one of the few examples where the feedlot guys and the cow-calf guys can get on the same page."

Jim admitted that, currently in the marketplace, straight Hereford cattle are going to command a discount as feeders. That discount is what has driven Hereford customers away more than anything. The very same animal, painted black, gets more money.

*continued on page 34...*

"I believe that the future for the Hereford breed is about as bright now as it has been in the last 53 years I've been involved in it. We can move forward from here pretty effectively, if we work on feed efficiency and work on improving carcass traits in these cattle over time. I am very bullish on the future of the cow-calf industry and very bullish on what we can do here in the Hereford breed."

— Dr. Kee Jim



Dr. Kee Jim and Randy Blach shared their insights on the economic side of the cattle business. Both industry leaders encouraged attendees to think about the role Hereford will play in the future of the industry.

“We can argue whether it’s right or fair, or doesn’t make sense, but it doesn’t matter,” Jim said. “People have developed a perception that these cattle don’t have the same amount of marbling. And to a large extent that’s true, so deservedly you get that discount related to the Choice-Select spread.”

As the industry goes forward, Jim said he doesn’t anticipate any change in finished cattle size. What he hopes is that they will become more efficient; by breeding for efficiency, cattlemen can produce the same size carcass more efficiently. That allows for the same amount of production but costs less money.

Hereford breeders want to know what they can do to get around the market discrimination associated with Hereford cattle. And to that, Jim said, “I think it’s pretty clear if you want to get value out of the cattle right now, you’ve got to feed them yourself.”

He said that he strongly advised producers to take the cattle not sold as breeding stock and to group them together, figure out a way to feed them out, and then sell them as Certified Hereford Beef.

Other management attributes that can help producers get more for feeder calves are preconditioning, pre-immunization, castration, dehorning, production verification, group size, timing of sale and reputation.

### Economic signals

How should seedstock operators interpret the economic signals sent from feeders and packers? Well, Jim said, the signals are confusing.

“Basically we are in a transactional based industry where we have ownership transfers. The vast majority of cow-calf producers sell their calves or sell their yearlings and they’re not that familiar with what happens after that,” Jim said. “I buy 85% of my feeder cattle from auctions that are essentially in the witness protection program. I don’t know who raised them, I just looked at them and bought them. And that really hasn’t changed a lot.”

The food service industry might be looking for smaller portion sizes, but Jim said there has never been an economic signal to produce smaller cattle. If there were, there would be premiums for smaller carcass weights or more money per hundredweight.

“And the punishment for producing so-called overweight carcasses is less and less,” he said. “I haven’t had a weight discount for so long that it’s not really a constraint. A 1,000-lb. carcass, even 1,050 lb. is probably bigger than I want to take most cattle anyway, so I am going to get to the end point in terms of production earlier than I am going to get to a packer discount.”

He points out that calving ease and those types of traits are important to cow-calf producers but are irrelevant

to him as a feedlot producer. “The ones that got to the feedlot were calved, it doesn’t matter anymore,” he said. “Just like, if I bring cattle to the packer bragging on feed efficiency and cost of gain, he doesn’t care. Because he’s thinking about quality grade and yield grade.”

Ultimately, he said, type and size of the cow need to be dictated by the environment. And that product that the cow-calf operator produces, that works for them, feeders will have to buy.

“The only thing I can do is offer you enough of a discount to discourage you from doing something a certain way. If you ask a packer what he wants, he will always want Yield Grade 1 cattle, Choice or better with a carcass weight of 900 lb. or so,” Jim said.

As far as the feedlot side of things, Jim said, “As a feedlot operator I want healthy cattle with high growth potential. I want good feed conversion and Yield Grade 1 with high Choice. And my preference for finishing weight depends on when there’s margin or not.”

He adds, “I think it’s important to differentiate between the signal and the noise. The signal is to make sure that what you’re doing on the seedstock or cow-calf operation is the right thing relative to the biological constraints of the environmental system you are operating in. Then you’ve got to make sure you are not

chasing some of these things that you can never win on.

“As the Hereford breed we need to focus on cleaning up past sins that have gotten us in a lot of trouble, and the survivors have rectified a huge number of those problems that existed in the past. I believe that the future for the Hereford breed is about as bright now as it has been in the last 53 years I’ve been involved in it. We can move forward from here pretty effectively, if we work on feed efficiency and work on improving carcass traits in these cattle over time. I am very bullish on the future of the cow-calf industry and very bullish on what we can do here in the Hereford breed.”

Visit the “Summit Proceedings” page at [HerefordGeneticSummit.com](http://HerefordGeneticSummit.com) to watch presentations, download slides and listen to audio interviews of speakers. **HW**