



Continuing the Conversation

During the Hereford Genetic Summit Sept. 4-5, 2014, Hereford breeders were challenged to embrace technology, focus on the customer, and concentrate on feed efficiency and end product merit to help position the breed to gain more commercial market share. We will “continue the conversation” in upcoming *Hereford World* issues as we discuss with breeders key take-home messages from the conference and as an Association we continue to build a roadmap for improving Herefords’ position in the cattle industry. For a complete summary of the event, visit HerefordGeneticSummit.com or see the October *Hereford World*.

This issue:

Economics

Meeting the Demand

Hereford breeders can work today to meet consumer demands in the future.

by **Julie White**

The buzz in the beef industry heard across the country is what a great time it is to be in the cattle business. And, maybe, an underlying question goes with the excitement. How long will cattlemen reap the benefits of this thrilling time?

“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 at the Hereford Genetic Summit last September. Blach gave insight about what the markets are doing and major changes to come.

Blach went on to say cattle prices will not rise much higher. “They

don’t need to,” he said. “But we will enjoy calf prices on top of \$2 for some time.”

With cattlemen responding to market demand and expanding the national cow herd, Blach said he expects a million head increase by January 2016. He said this likely increase has led to questions about profit suitability moving forward.

“We can go from 29 million beef cows to 32 million beef cows and still remain a very profitable industry,” he said. “As long as we grow demand for our product.”

Blach said demand must continue to grow at least 1% a day, and then, even with adding more cows back

Economist shares 8 trends to watch in 2015

by **Kindra Gordon**

Livestock economist Glynn Tonsor says he has a bullish outlook for the livestock industry over the next few years. A faculty member in the economics department at Kansas State University, Tonsor’s optimism is being fueled by feed costs coming down and pasture and forage conditions improving.

Specifically, what will Tonsor be watching as 2015 unfolds? He recently shared his thoughts at the American Farm Bureau Federation annual convention in San Diego.

- 1) It will likely be the first quarter of 2016 before the industry sees a slight increase in beef production. With cow herd expansion just now occurring, it is simply going to take that long before we start seeing more beef in the pipeline.
- 2) Poultry’s been expanding since 2014 and that will continue — which leads Tonsor to predict: “We have a lot of chicken coming at us in 2015.”
- 3) He says pork production is also expanding, and we will see more pork in the marketplace in 2015 as well. However, because of the viruses that have impacted the hog industry, Tonsor says it is harder to predict just how much pork will be produced. He explains, “The breeding herd is expanding; what we don’t know is how many pigs will be saved per litter to result in number of hogs marketed.”
- 4) As a result of pork and poultry’s expansion, and beef’s lag-time to catch up, Tonsor says beef’s market share will likely go down in 2015. He also shares an interesting statistic. According to USDA long-term projections, 2018 is the first year that USDA is projecting a per capita increase in consumption of beef. For 2015, per capita beef consumption stands at 46.6 pounds. In 2018, it should increase to 49.1. Conversely, pork and poultry consumption will all see increases in 2015.

into the herd, he estimates cow-calf producers would still make approximately \$250 a head.

Hereford's role

Blach reminds Hereford breeders they are not in the cattle business, but in the protein business — the beef business. “That’s the end game. If we look at it that way, we would get where we need to be a lot quicker.”

An opportunity for Hereford, he said, is to consider quality grade.

Mike Mitchem, Certified Hereford Beef (CHB®) LLC director of food service sales, works with sales representatives from restaurants across the county. “In foodservice, the key thing when it comes to beef is portion size,” he said. “We know they’re paying more and consumers are paying for it if the eating experience is good. The great thing about our specifications of CHB is it warrants well to cut down to smaller portions because our yields are higher.”

Another top priority for food service distributors is carcass quality. “Especially when it comes to quality grade, they are looking for those higher-quality grade-type animals,” Mitchem said. “Hereford does offer that. I get quite a few

requests for Choice grade. Their customers are paying more so they want to ensure their eating experience is remarkable so they will come back.”

Mitchem said that when it comes to carcass quality, CHB offers several brand options, which allow CHB LLC to access a higher-spending customer base. At Sysco Los Angeles Inc., Mitchem said management is looking into carrying a two-tier system — CHB Choice and CHB Select. “Choice will go to fast-casual up to fine-dining,” he said. “Select will be mostly for Hispanic cuisine as this market enjoys the leaner beef with less marbling.”

Dale Micheli, past CHB LLC president and Hereford breeder from Ft. Bridger, Wyo., says he’s always been a believer in Hereford beef. “We, as breeders, need to make marbling a priority,” he says. “Quality is very important right now to the consumer. Before I thought it doesn’t matter — we have Choice cattle and Select cattle. It’s a hard sell right now in the current market to move Select cattle. We have to do a better job of getting cattle to grade Choice.”

Micheli said Herefords offer 60-65% Choice cattle while other

breeds are at 80%. “That’s a 20% disadvantage that we cannot afford. I think the great thing for us, as a Hereford breed, is we have the tools now to fix that. We don’t have to one-trait select, but look what we’ve done with birth weight and ribeye. We’ve made huge strides. In my opinion we have to get our cattle to grade an additional 20% Choice.”

Dale Venhuizen, Manhattan, Mont., and a current CHB LLC board member, agrees. “We need more marbling in our cattle as a general rule,” he said. “We certainly have cattle out there now that perform very well from a marbling standpoint. But I also think that we can take our current population of Hereford cattle and Hereford-cross cattle and fit very well into the markets that Mitchem was talking about.”

He adds that the packers CHB LLC works with and the CHB LLC sales team are doing a good job of moving product. “Even though we do need a stronger breed push for marbling, I do think we can sell our product, and we are selling our product very well...and we’ve done that for years which has been a big boom for us as producers.” **HW**

5) Regarding beef demand, Tonsor says the tight supplies have resulted in strong demand, and consumers have been willing to pay more for beef. The question remains: Can that demand continue in spite of increasing beef prices? Tonsor says the improvement in the U.S. economy, along with lower fuel prices and increase in wages will help consumers have a little extra cash to spend — “this is a bullish thing for domestic beef demand,” he states.

6) For 2015, Tonsor says beef herd expansion is occurring. But that has some repercussions. Namely, it will mean less cattle being slaughtered, so there will actually be less beef supply in 2015 compared to 2014. Tonsor predicts the tight beef supply situation will carry through 2016. Tight supplies will also translate to continued record calf prices and cow-calf returns. He cites data that projects 2015 prices for 500-600 lb. calves at \$274 to 281/cwt. As well, average cow-calf returns will be over \$500 for many producers. That said, he notes that

above average range and pasture conditions will be required for feasible beef herd expansion to continue. He also cautions that with rising costs, breakevens are higher and producers must be mindful of return on investment.

7) With regard to herd expansion, how big might the U.S. cow herd inventory get? The current inventory is 29 million cows. USDA projects that 10 years from now, in 2024, we’ll be at 33.7 million cows, which is a 16% increase from 2014, Tonsor reports.

8) While it is an exciting time for the meat and livestock sectors, Tonsor says producers should remain cognizant of their business and be open to adapting as necessary. He states, “It’s not your father’s world anymore. Know and leverage your comparative advantage as you consider expansion.” **HW**