Adjusting to the Economy

As escalating costs continue, these beef industry experts offer advice to help cow-calf producers adapt.

by **Kindra Gordon**

With prices for corn and other grain commodities skyrocketing along with increasing fuel costs, many beef producers are likely asking themselves the question, "Where will it end?"

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— Harlan Hughes

Unfortunately, no one has the answer. So, the next question becomes, "What should I do?"

Here, there is consensus on the answer. Kansas State University (K-State) agricultural economist James Mintert, longtime industry economist Harlan Hughes and Barry Dunn with the King Ranch Institute for Ranch Management all give the same advice to cow-calf producers — "Find ways to be a low-cost operator."

Hughes says, "We're operating in an environment we've never been in before.… It's a whole new ball game with $5-6 corn to finish cattle on." He acknowledges that beef prices have remained good, but there are still a lot of unknowns.

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— Barry Dunn

Likewise, Dunn says, "It seems we were all caught off guard with the tremendous run-up in costs. We've been enjoying high prices, but our costs are just exploding at the same time." As an example, Dunn says annual cow costs for 2008 are probably going to average $460-560/head for the year — when they are typically $360/head.

Mintert is projecting those cow costs could even be as high as $700/cow for some producers in 2008.

With those projections, it could be a rough ride ahead for cattle producers. Dunn says, "I think, in the future, operations that rely on high levels of labor, fossil fuel, harvested or purchased feed will be at risk."

To that end, he adds, "More than anything being able to control costs — that's the recipe for survival."

Thrifty thoughts

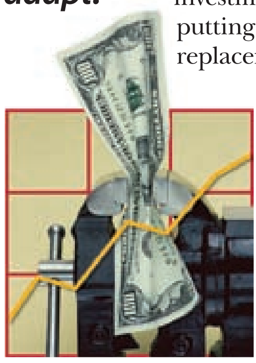
So, where do you start to squeeze your costs down or manage your risk? This trio offers a range of ideas to consider.

1) Lower investments

Dunn suggests looking at ways to lower your investment in order to lower costs. For example, perhaps you downsize the number of vehicles — especially new ones — or equipment that the ranch owns. He also says renting a portion of the land on which you run cattle is still cheaper than owning land.

2) Look at replacements

Along with looking at investments, Dunn suggests putting some thought into your replacement female strategy.



"It takes several years for a young female to pay, so the operation with the lowest level of replacements is most profitable," Dunn says. He adds that this is especially important for commercial operations. "I recognize that a rapid replacement rate is important for seedstock operators, but for commercial producers, bulls are where you'll make the most genetic change. So keeping a strong, healthy cow as long as you can is important for profitability."

3) Aim for average

Dunn makes the point that almost everything has a point of diminishing return. So rather than trying to produce 700-lb. weaning weight calves at an exorbitant cost, go for the lower cost alternative of 500-lb. calves. Likewise, a 98% pregnancy rate may be great, but what did it cost you to get that?

4) Maintain herd health

Dunn says being proactive on herd health and using preconditioning programs is still important. He says, "There's some paybacks and it doesn't cost that much. It's not a place to cut costs."

5) Crossbreed

Dunn says, "On most ranches, if I could change one thing, it would be to bring crossbreeding back to take advantage of heterosis. It produces a 20-25% improvement in production and increases longevity of cows, which, in turn, reduces investment and should result in lower breakevens."

6) Match cow and environment

Dunn says this doesn't mean only small cows will do; it simply means knowing what type of cow is most efficient in your environment. Likewise, Mintert emphasizes that feed efficiency will be an increasingly important trait as the industry battles high feed costs.

7) Manage your range

By matching stocking rate with carrying capacity and having the ability to be flexible with stocking rates for drought management, Dunn says you'll also be able to better manage your cow herd costs.

8) Be savvy at marketing

Hughes advocates that this requires knowing your breakeven costs and looking at unit cost of production per pound of weaned calf. Dunn says networking is important to the marketing process and adds that not only should you focus on how you market calves, but you should also capitalize on how you sell cull cows.

9) Rethink retaining

For 2008 Hughes believes it will be hard for cow-calf producers to add value to calves beyond weaning. "I'm not excited about retained ownership in 2008; my numbers don't support it; and I'm not encouraging it. My recommendation is to sell at weaning and try to raise 2009 calves cheaper."

10) Use records

Hughes also suggests herd performance records are now more important than ever. He tells producers, "You need to use records to figure out how to push your cows to produce more.… It will require intensive management of herds, but increasing production — without increasing costs — is the best way to reduce unit cost of production."

11) Manage risk

Lastly, producers may consider becoming more active in risk management through hedging and the futures market. Mintert references a new Web site, *www.beefbasis.com*, that has been developed as a cattle basis risk analysis tool to help improve marketing decisions. The site is free to use and was developed by K-State, U.S. Department of Agriculture's (USDA) Risk Management Agency and Custom Ag Solutions.

What's ahead?

As cow-calf operators make adjustments, what can be expected for the remainder of 2008?

Mintert is forecasting that cattle prices will soften some. For calf prices he's anticipating $115-117, which is down from 2007 prices.

The futures market suggests a $111 average cash price for 700-800 lb. Kansas steer prices in the last half of 2008. Mintert calls that "more optimistic" than he thinks the cash price will likely be.

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Mintert says a reduction in the U.S. beef cow inventory is also starting to occur but says the rate of reduction remains to be seen. "The bulk of cow slaughter occurs in the fourth quarter of the year, so the extent of the reduction is unclear."

Hughes also predicts that due to the higher prices for grain commodities, farmers who have beef cows will likely be getting out of the beef business. But he adds, "This should help cattle numbers in total go down. If demand remains steady, prices should stay up and will add strength to the remaining beef industry."

"I think cow-calf producers will do OK," says Hughes, but he reiterates that the key will be being a low-cost operator — "that's the qualifier," he concludes. HW

A changing economy

Despite the downturn in the U.S. economy, a bright spot for the beef industry is the continued growth for beef exports — which, in turn, is helping keep beef demand and prices up.

According to the U.S. Meat Export Federation, beef exports showed impressive gains during the first quarter of 2008, with the outlook for even more growth. Highlights from the first quarter included a 29% increase to 435.7 million pounds — representing a 40% increase in value to $682.7 million.

K-State Economist James Mintert says beef demand — both domestic and via exports — is very important to the future picture of the beef industry. He explains that steady or increasing demand will help keep cattle prices up, which, in turn, can offset some of the escalating costs the industry has seen.

But the question is "How fast can the demand grow?" Domestically, Mintert says that it would be nice to get stronger beef demand but that it's not likely to happen in the next year or two given the economy.

Internationally, Mintert says, "Exports are growing, but not rapidly enough."

While the demand picture remains fairly positive, there are some other issues building in the industry that won't likely help the economy. They include:

A smaller livestock sector across the board, will result in fewer numbers of beef, poultry and pork. Mintert says while that is supportive of live prices, "That's just starting, so the implications on food prices is yet to be seen for 2009 and beyond."

Additionally, rising feed and energy costs have had a big effect on cattle feeders and packers. Mintert anticipates that another beef plant will close in the next year to get capacity in line with cattle numbers. As corn is gobbled up for ethanol, he sees some shifts in cattle feeding as well. Namely, he says the Southern Plains will likely lose some of its cattle feeding market share while the Northern Plains — and especially Nebraska — gains cattle feeding numbers because of the available byproduct feeds. HW