

Slow Go

Steps toward herd expansion could begin this fall.

by *Wes Ishmael*

Cow-calf producers continued liquidation through the first quarter of this year, based on the level of beef cow slaughter and the percentage of heifers in the feedlot mix.

This reality in tandem with increasing calf prices the past two years underscores the financial brutality and lingering effects of the recent widespread, multi-year drought. Hay supplies were scarce heading into last spring. There was little appetite for retaining heifers or bottom-end cows when they were worth so much and balance sheets needed to heal.

In other words, odds favor the number of beef cows at the beginning of next year to be close to steady or slightly less than the 28.2 million head that started this year. If the weather cooperates, declining cow slaughter in the second quarter and a tick fewer heifers offered in summer video sales suggest some producers may be ready to retain more heifers this fall.

“The first step in expansion is stopping liquidation, and clearly we have,” says Lance Zimmerman, Rabobank senior animal protein analyst. “I think we’re getting to a point where producers are more confident in the weather patterns and more confident of the returns.”

Depending on the database and measuring stick, average net returns per cow are increasing enough for some to consider the economic risk of expansion.

“Hay is cheaper, the margins are looking greener, but there are significant regional differences,” Zimmerman says. For instance, while feed costs are declining overall, producers in the northern and central plains enjoy a substantial basis advantage for corn and other feedstuffs.

Then there’s interest cost.

The last time producers expanded the national cow herd in 2012-14 — the most aggressive expansion on record — interest rates were an afterthought.

“We calculated the margins and said, ‘Go!’” explains David Weaber, senior animal protein analyst for Terrain. These days, with interest rates at 8-10%, he points out the cost of borrowing \$3,000 to buy a bred heifer is equivalent to last year’s net cow return per head for some producers.

Planning pays

Given the relatively high cost of expansion, Zimmerman notes a little planning on the front end can pay a lot on the back end.

“When we start retaining heifers for the next phase, we have to keep in mind the investment we’re making.

We make the investment with the long term in mind. The most profitable cows in the herd today are 6, 7 and 8 years old,” Zimmerman says. “Take some extra time to decide what your rebuild looks like. The cost of making the wrong decision goes up significantly in this price environment.”

At this stage of the price cycle, with another year or so left of historically high calf prices, Weaber believes buying rather than retaining and developing heifers can make more economic sense.

“A bred heifer that will calve in 2025 is not priced too far out of line today,” Weaber says. “If you keep one, you won’t sell her calf until 2026. Sooner is better than later.”

Quality incentive continues

Producers transformed beef for consumers when they built back during the previous cycle. The industry was already producing more Choice and Prime carcasses, but genetics added through the expansion accelerated momentum.

“It took the rebuild to lean harder into the quality side of things,” Zimmerman says. “The biggest gains in quality came on the back end of the last herd expansion.” He explains there were 18.8 billion pounds of Prime and Choice quality grade beef produced in 2022 compared to 11.7 billion pounds in 2005.

Although carcass quality premiums moderated over the last 12 months, Weaber says the price spread between Prime and Choice grade and between Choice and premium Choice remain wide enough that producers cannot take their eye off the quality target during the coming expansion.

“There are still huge money differences,” Weaber says. “The market continues to say, ‘Send more quality.’ The money is there to move all of the beef tonnage in the lower third of the Choice grade into the upper two-thirds.” Going forward, he says the most dollars will be for carcasses that grade in the upper levels of Prime.

As producers make decisions about breeding systems and genetics when they expand, Weaber notes pounds of carcass weight will continue to drive the overall market, but the composition of those pounds will likely change. Specifically, he explains the value of Yield Grade continues to be diluted in the marketplace because it does not reflect today’s cattle.

USDA’s Yield Grade system was developed in 1965 to estimate cutability or the yield of boneless, closely trimmed retail cuts. The system was developed with data from a handful of cattle. It has not changed since.

However, Weaber believes cutability will become more important to carcass valuation, as researchers, including those at Texas Tech University, develop new, objective tools. When these tools are available, which will allow packers to discount carcasses based on cutability, they likely will.

Building resiliency

Besides continued focus on carcass quality, herd expansion offers an opportunity to question and potentially change other aspects of individual operations and the collective industry.

“The U.S. beef industry is navigating a business environment that is increasingly complex and challenging,” Zimmerman says, in a Rabobank analysis examining opportunities in the next cattle cycle. “At the same time, unpredictable climate patterns, supply changes and margin shifts are increasing production and price risks for each segment.” He believes opportunity to manage these risks include enhanced vertical cooperation, increased technology adoption and broader public policy engagement.

Closer to home, Weaber explains a byproduct of the industry push for heavier yearling weights has been heavier weaning weights, along with more milk and larger mature cow size.

“If average mature cow size is 20% larger today than in 1990, a ranch that could stock 100 cows back then should be running 80 today because overall cow feed efficiency has not changed,” Weaber says.

Snubbed to a different post, cost control looms large when it comes to resiliency. Various analyses over time suggest higher-profit cattle producers focus more on managing cost than necessarily increasing unit production or value.

“... while both production (weight) and weaning percentage do impact profit, they are much less important in explaining differences between producers than costs,” according to a cow-calf enterprise analysis of Kansas Farm Management Association (KFMA) members. “In fact, 66.0% of the average difference in net return to management between high-profit and low-profit farms is due to cost differences. The other 34.0% is due to differences in gross income per cow, which is primarily because the high-profit farms sold a larger number of calves and sold slightly heavier calves.”

That’s from “Differences Between High-, Medium-, and Low-Profit Cow-Calf Producers: An Analysis of 2015-2019” (*AgManager.info/livestock-meat/production-economics*), penned by Dustin Pendell, agricultural economist at Kansas State University (K-State), and Kevin Herbel, KFMA executive director.

“High-profit operations had a \$268 per cow cost advantage over low-profit farms (22% advantage) and a \$188 (16%) cost advantage over the mid-profit farms,” according to the K-State report. “High-profit operations had a cost advantage in every cost category compared to low-profit operations, and every cost category compared to mid-profit operations, except for pasture.”

Similar studies over time point to the fact that some low-cost, high-profit producers spend more than their peers do in particular areas, such as genetics and preventative animal health.

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Herd size ahead

There were 3.5 million fewer beef cows (-11.2%) at the beginning of this year than the recent peak in 2019. History says the cow herd will not reach its previous peak. At least, it never has in cycles since the mid 1970s.

“Can we get back to 30-31 million beef cows? I think so,” Weaber says. “Can we get back to 32-33 million head? I don’t think we’d like the prices that would result.”

Zimmerman projects beef cows to number approximately 28 million head when the new year begins. While it’s unlikely for the cow herd to grow to the previous peak of 31.8 million head, he believes 30-31 million head is possible in the next 5-6 years. **BA**

