BeefTalk 654: The Plow and Cow Are Strange Companions

SUPPORTING MATERIALS

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The Upper 40%
Net Return per Cow

	Gross Margin	Direct and Overhead Expenses	Net Return
2011	$813	$514	$299
2010	$614	$425	$188
2009	$468	$416	$52
2008	$517	$417	$100
2007	$596	$418	$179
2006	$570	$391	$179

FINBIN (www.finbin.umn.edu) from the Center for Farm Financial Management, University of Minnesota

Competing crops with excellent projected returns beg the question: Why run cattle?

The world of beef cattle, at least for some, is good and so are profits. The cow-calf enterprise is making money for those who are in the upper 40 percent of gross margins minus direct and overhead expenses.

What is nice is that the cow-calf enterprise for those upper 40 percent of producers is contributing in a positive manner to labor and management. Cattle numbers, when return to labor and management is positive, will expand. However, the cow-calf business seems to be in a “wait and see” mode with many conflicting thoughts. Given the positive position for those producers who are financially successful, the cow-calf business should expand.

In anticipation of this spring’s summaries of agricultural enterprises provided by the North Dakota Farm Management (NDFM) (http://www.ndfarmmanagement.com) program, I have been reviewing previous NDFM numbers. These numbers are on the FINBIN website (http://www.finbin.umn.edu/) made available by the Center for Farm Financial Management at the University of Minnesota.

In the bigger picture, competition for available land resources is tough. Competing crops with excellent projected returns beg the question: Why run cattle? Interestingly, in today’s world, the question is twofold.

Were the cows profitable? If so, how profitable were they? Both of these questions need to be answered because competing crop enterprises offer some great opportunities for producers. Even if the landowner does not want to raise crops, leasing or cash rent opportunities may become very attractive to a cattle producer.

Without going too far back in time, if one reviews net returns per cow, cattle producers certainly have had positive net returns. From 2011 back through 2006, cattle producers who were enrolled in the NDFM program have had positive net returns over direct and overhead expenses.

The net return values were $182 in 2011, $111 in 2010, minus $13 in 2009, $12 in 2008, $98 in 2007 and $105 in 2006. For 2012, it will be interesting to see what these numbers are, but one would speculate that the industry had positive net returns over direct and overhead expenses.

Are these high enough to keep producers in business? Yes, but let's look at those producers who were at the upper end of net the returns. In other words, those producers who were in the upper 40 percent bracket. This group of producers was in the black every year from 2006 through 2011.

The actual net returns over direct and overhead expenses for the upper 40 percent were a positive $299 per cow in 2011, $188 in 2010, $52 in 2009, $100 in 2008, $179 in 2007 and $179 in 2006. The long and short of it is that this group of cattle producers had an average net return of $166 per year per cow total above direct and overhead costs to contribute to the labor and management of running a cow-calf enterprise.

This may seem like a lot of money, but producers still are asking if profit levels are high enough to offset the lost opportunity to do something that may have made more money on the same land. This is a tough question and one that even those producers that are successful financially in the cattle business eventually must address.

Not so much today, but when the time comes to turn the operation over to the next generation, the questions become loud and clear: Why stay in the cow business and why expand?

Looking at the cattle operations that are in the upper 40 percent for net returns per cow, the average gross margin from 2006 to 2011 was $596. Total direct and overhead expenses averaged $430 for the same period for an average gain of $166 per cow per year. For this group of cattle producers, times are good.

As noted earlier, there are two questions. The first: Were the cows profitable? The answer is yes for the upper 40 percent of producers. How profitable were the cows was the second question. The answer is known for this set of producers, but there are red flags waving. These producers seem to understand that high income and low costs are critical.

However, the returns still need to compete on a per-acre basis with other agricultural enterprises. The plow is an instrument of change that can be positive or negative, but an instrument of change either way.

May you find all your ear tags.

Your comments are always welcome at http://www.BeefTalk.com. For more information, contact the NDBCIA Office, 1041 State Ave., Dickinson, ND 58601, or go to http://www.CHAPS2000.com on the Internet.