

BeefTalk: A Chaotic Beef Industry



Two Traumatic Hurdles for the Beef Industry

Reversing the trend of decreasing cow numbers is proving to be traumatic.

The beef world is changing, but one should avoid the word chaotic because the beef world has a lot of structure and is far from disorganized. However, the incoming forces that we do not control, such as Mother Nature, are slamming us. Although the response is quite organized, those forces certainly increase our sense of losing control. In that case, chaos may not be such a bad description.

Cattle are no different from any other living thing. Rule No. 1 is that cattle must eat and meet their daily nutritional requirements. Occasional imbalances may be tolerated for short periods, but through the long haul, every cow, calf, yearling, replacement heifer, finishing calf and bull must eat. Two to 3 percent of their body weight should be consumed in dry feed every day.

Drought and excess moisture are interacting across North America to destabilize what was perceived to be a very stable feed base. Chaotic may be appropriate if you throw in the changing and demanding world of people and their desire to go beyond food by tinkering with new energy models.

Historically, great herds of ruminants always have moved with the feed. The survival of those that exist in the wild is dependent on finding a food source. Failure means death. In the most severe case, it means extinction. Cattle are no different.

Like many of their nomadic cousins, the cattle industry historically has moved to where feed availability was assured and reasonably priced. Some would even say cheap.

Therefore, we have the current cattle industry dilemma. In a modern cattle production industry that has relatively immobile facilities, what does a producer do? Even the large feedlots, if one takes the time to visit with the founder, are located based on feed availability and good neighbors who are willing to raise that feed.

Although cow-calf producers initially landlocked themselves to fence in available forage, the initial layout and fence structure was designed to accommodate the local stocking rates. It was well-understood that a pasture without forage is a pasture without cows.

Reversing the trend of decreasing cow numbers is proving to be traumatic. Why is that? Let's return to the North Dakota Farm Management education program (<http://www.ndfarmmanagement.com>), along with FINBIN (<http://www.finbin.umn.edu/>) data from the Center for Farm Financial Management at the University of Minnesota. Several pieces of the model can be surmised. The future of beef rests on income and expenses.

Trauma No. 1 is the fact that replacing cows is expensive. Utilizing the previously mentioned database, producers should be targeting and expecting cows to contribute \$650 to \$700 to the collection plate. However, along with increased income comes an expensive replacement heifer.

As cow numbers continue to decline, money set aside for replacements on an annual basis should be \$150 per cow in the breeding herd. If a producer replaces a cow on the average of every six years, the cow has six years of productive life in the herd. Therefore, the \$150 per year sets aside \$900 to buy a replacement, plus the cost of developing the replacement. That will not be enough given the increase in replacement values.

The only redeeming feature may be the continued increase in calf values. The bottom line is that cows are and only will become more expensive to replace.

Trauma No. 2 is the fact that expenses are increasing at a greater rate than income. The bottom side of the equation ultimately determines net profit. Historically, as the model grows, approximately 75 percent of direct costs are feed-related, regardless of net return. If one was to project direct costs per cow at \$400 per year, the producer has \$300 of feed expense to work with.

As Mother Nature and energy production demands toy with beef producers, the industry can ill afford spiraling feed costs. The current production models have little room to absorb imported high-dollar feed. That is why, as noted before, cattle move to feed because feed does not move very well to cattle.

These are tough thoughts and will have producers pondering who should be in the beef business. The cow business works with gross margins of \$600 per cow, provided direct costs can be held to less than \$400 and overhead to less than \$100.

If the previous year's estimates put feed input at \$300 per cow, Mother Nature and energy demands may and actually are pushing feed input costs out of what many would consider a comfortable risk area.

Too much input and not enough output equals one less beef producer.

May you find all your ear tags.