BeefTalk: Future of Beef Revisited - Economics

The bottom line: Economic principles are driving the beef industry.

By Kris Ringwall, Beef Specialist

NDSU Extension

Revisiting yesterday is not a bad idea.

In 2006, the Agricultural and Applied Economics Association published a discussion regarding the future of beef in the Choices journal (Volume 21, No. 3, http://www.choicesmagazine.org). As a part of the series, author Michael Boehlje wrote the article "Economics of Animal Agriculture Production, Processing and Marketing," focusing on issues beef producers need to understand.

I hope our understanding of the economics of beef production has increased in the past 12 years, which may be the source of our continued discussion.

Do cow-calf producers who were producing cattle in 2006 understand the driving beef industry economic principles better today? Or do we default to the myriad market analyses and informational numbers?

Images

The Future of Beef Production

The Future of Beef Production

Accepting the default may work, but the bottom line is things are getting bigger and more complex, and the associated advantages to individual cattle operations vary from one neighbor to the next. Cattle producers need to understand the principles to outpace the competition.

Do we better understand? Are we aware of the new and old consumer trends worldwide that ultimately affect our bottom line? However, the same charts still are presented.

The impact to local cattle production needs to be pulled out of the numbers and integrated within each cow-calf unit's future plans.

The producer managing the unit has a lot to think about on a daily basis. Boehlje noted four items - regulatory reform, meeting consumer desires, assuring open markets and product diversity - as critical.

Still 12 years later, discussions are centered on those four topics. Some days, we seem to see quiet acceptance, but industrywide, consensus still comes into question. And changes in the direction of governmental policy can have an overnight impact.

The bottom line: Economic principles are driving the industry. The decrease in cattle producers ultimately comes down to a poor bottom line. What drives each expense will vary, but the sum of the expenses must be less than the sum of the income checks while producers live a desired lifestyle. That has not changed.

Value-added and process-verified products are increasingly evident at the storefront, but the same economic principles of commodity production apply. Competitive products within competitive markets sustain new and innovative beef production. Those processes or policies that encumber or add cost reduce competitiveness, while those processes and policies that open borders and markets increase opportunity.

This still is a true statement: Beef is only one part of a very large food industry. As Boehlje noted, our industry “continues to undergo major structural change due to rapid evolution in producer characteristics, worldwide production and consumption patterns, technology, size of operation, and geographic location.” These changes are not unique and beef cattle producers are not immune.

The U.S. Department of Agriculture’s National Agricultural Statistics Service Cattle on Feed reports indicate the U.S. had 104,072 feedlots in 1999. The number dropped to 82,170 in 2009 and 28,209 in 2017. Feedlots with 1,000 head or more of market cattle numbered 2,072 in 1990, 2,170 in 2009 and 2,209 in 2017.

A further review of the statistics reveals 152 feedlots had a capacity greater than 16,000 head in 1999, 260 in 2009 and 259 in 2017. The assumption is the trend in feedlots follows the same economic principles of cow-calf operations. So maybe a practical influence does occur on leveling size as times change.

Still, those lots that have a capacity of 16,000 head or more marketed almost 60 percent of the available calves in 1999 and 2009. Today, those lots market more than 60 percent of the calves.

Boehlje also noted the “four-firm concentration ratio” for cattle expressed as the percentage of the total commercial cattle slaughter by the four largest firms in an industry. In 1980, the ratio was 28.4, and in 2004, the ratio had risen to 70.9 for the cattle industry (USDA Packers and Stockyards Statistical Report, February 2006). The ratio was at 68.9 in 2006.

I am not finding much change in recent years. Opportunity is still present. The same trends are evident in cattle feeding and harvesting, although perhaps the trend is maturing. In other words, cattle producers are aware that the beef business is migrating to largeness. But the question of when does large become too large has not been answered yet.

One is probably not surprised that smaller or midsized operations in all phases of the beef business struggle for competitiveness. But a limit on size and competitiveness is out there somewhere.

The question today for producers tends to end with a thought of when enough is enough. Economics of scale work as a feedlot adds pens, but for the cow-calf producer, the answer is not so easy.

May you find all your ear tags.

For more information, contact your local NDSU Extension agent (https://www.ag.ndsu.edu/extension/directory) or Ringwall at the Dickinson Research Extension Center, 1041 State Ave., Dickinson, ND 58601; 701-456-1103; or kris.ringwall@ndsu.edu.

NDSU Agriculture Communication - May 24, 2018

Source: Kris Ringwall, 701-456-1103, kris.ringwall@ndsu.edu

Editor: Ellen Crawford, 701-231-5391, ellen.crawford@ndsu.edu

Attachments

PDF - color - The Future of Beef Production (NDSU_Extension_BeefTalk_052418.pdf - 32.82 Kb)

PDF - gray - The Future of Beef Production (NDSU_Extension_BeefTalk_052418_gray.pdf - 32.81 Kb)

EPS - color - The Future of Beef Production (NDSU_Extension_BeefTalk_052418_color.eps - 274.57 Kb)

EPS - gray - The Future of Beef Production (NDSU_Extension_BeefTalk_052418_gray.eps - 273.89 Kb)