BeefTalk 653: Survival Comes Before Expansion in the Cow Business

SUPPORTING MATERIALS

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The Lower 40%
Net Return per Cow

	Gross Margin	Direct and Overhead Expenses	Net Return
2011	$666	$590	$76
2010	$525	$528	($3)
2009	$445	$565	($120)
2008	$412	$503	($91)
2007	$471	$476	($6)
2006	$484	$466	$18

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

In the current world, the competition from the energy- and food-producing sectors of agriculture is real.

What would you say if someone told you that 40 percent of the cow-calf producers are struggling to justify being in the beef business? After all, the cattle business is a great business and currently humming along through great times.

If that is true, why is the industry not expanding? Good question and certainly a relevant one.

We can speculate on the many reasons why the cattle numbers are what they are. In anticipation of this spring's summaries of agricultural enterprises provided by the North Dakota Farm Management Program (NDFM) (http://www.ndfarmmanagement.com), I have been reviewing previous numbers. Data also are available on the FINBIN website at http://www.finbin.umn.edu/ and come from the Center for Farm Financial Management at the University of Minnesota.

With the increasing competition for land and competing crops, the big question is: Why run cattle? Returns from crop enterprises are good, and many will say they enjoy the more structured time crop operations offer, especially the time off that is not always available for those who engage in livestock operations.

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

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

Are these numbers high enough to keep producers in business? Yes, but let's look at those producers who were at the lower end of net returns, which are those producers who were in the lower 40 percent bracket.

This group was in the black in 2011 and 2006, but lost money in 2010, 2009, 2008 and 2007. The actual net returns over direct and overhead expenses were a positive $76 per cow in 2011, minus $3 in 2010, minus $120 in 2009, minus $91 in 2008, minus $6 in 2007 and a positive $18 in 2006.

The long and short of it is that this group of cattle producers has had to find some other enterprise to pay for an average of $21 per year, per cow for direct and overhead expenses because the cow could not pay her costs. That may not seem like much, but also what was lost was the opportunity to do something that may have made more money on the same land.

Why do producers who have negative returns through six years remain in the cow business? Speculation is just speculation. The bottom line for the bottom 40 percent of this sample of producers is that the cows are not paying their way.

Why expand or even stay in the cow business? For the cattle operations that are in the lower 40 percent for net returns per cow, the average gross margin from 2011 back to 2006 was $500. Total direct and overhead expenses averaged $521 for the same period for an average loss of $21 per cow.

As noted earlier, times are good in the cattle business. However, some serious flags are waving. High income and low expenses are good partners, but high expenses do not partner well with anything. Any lowering of revenue for high-cost operations will take out the option of staying in the cattle business.

Cattle expansion is not a given. Unfortunately, there is a very serious play for land that can be used for more profitable agricultural enterprises. There is very little incentive for those operators who are struggling to stay afloat to keep the cow operation.

Let me repeat myself. In the current world, the competition from the energy- and food-producing sectors of agriculture is real. This competition will drive costs up and, given Mother Nature's hesitation to provide moisture, the competition gets tougher. Cost control is the driver for sustaining beef operations and is achieved by the continual evaluation of the planning process.

For now, the point remains: What would you say if someone told you 40 percent of the cow-calf producers are struggling to justify being in the beef business? The cost of production is a simple fact, so plan well as the 2013 year engages.

Survival comes before expansion.

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.