The Changing Structure of Beef Production

Stockers, Calf Feds and Yearlings

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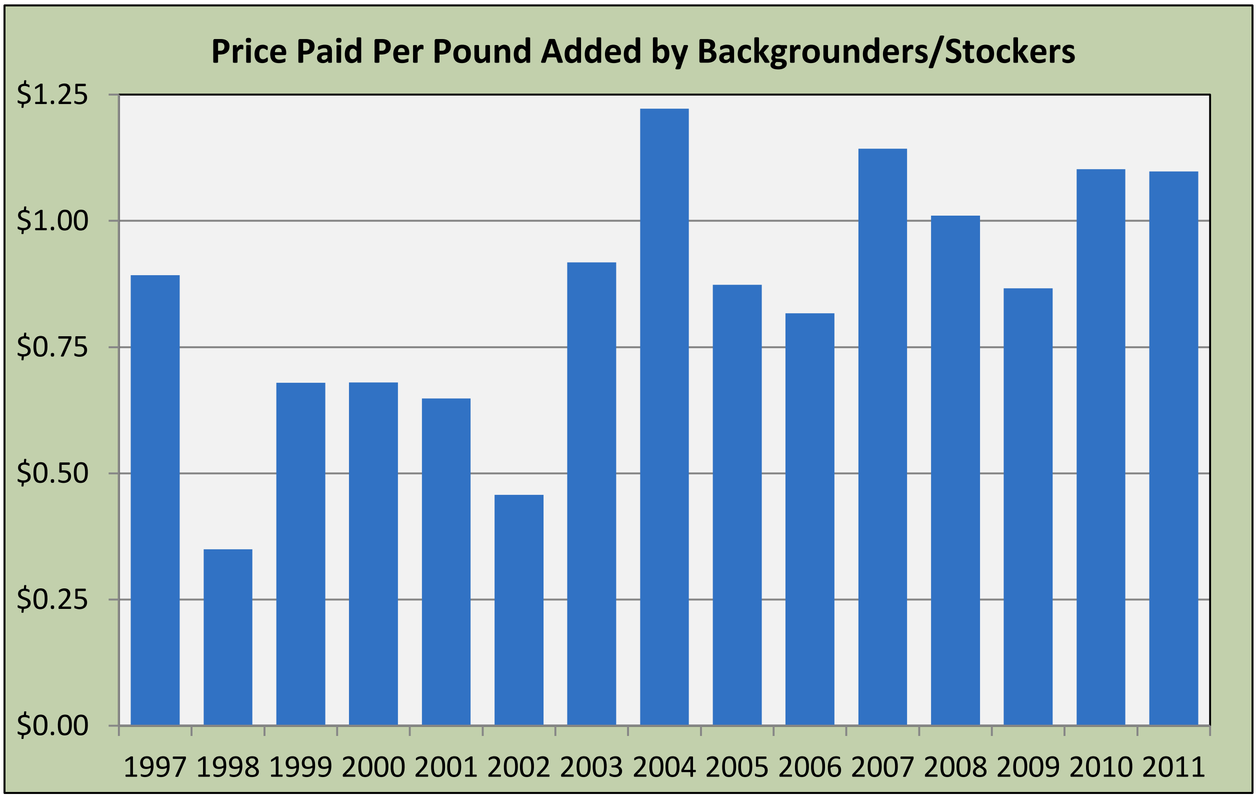
Beef production is always in a state of flux. Nothing in this business stays the same for very long. The current situation is truly unique compared to anything we have experienced in the past. Demand is growing. Supply is shrinking. Cattle prices are rising and show no sign of stopping, despite reaching record highs this year. Production costs are also increasing. There are some very real opportunities in the cow-calf business and other producer segments. But financial risks exist as well. My belief is that the good outweighs the bad. Cow-calf producers could see some of the best profits during the next five years than they have experienced in decades. My task for the XXII Range Cow Beef Symposium is to share observations on structural changes taking place in the U.S. beef supply chain. I also hope to identify a few opportunities that will benefit attending cattle producers as they strategize, re-shape, and otherwise position their operations for success in the years ahead.

Is this a good time to be in the cow-calf business? Apparently quite a few people don't think so. Beef cow numbers continue to decline. Certainly, the South Plains drought has driven cows off the range. However, even in other geographies, enthusiasm for the cow business appears lacking. Calf prices are record high, but feed costs are keeping pace. As one veteran cowman recently quipped, "I can't be a low-cost producer when I have no grass." Moisture in the right places could change that significantly within 6 to 12 months time. Growing beef exports, stable domestic demand, and projected large declines in U.S. beef output over the next several years suggest a positive price trend. We probably do not have to worry about prices falling from current lofty levels. If you can manage your costs effectively, this is a great time to be a cow-calf producer.

Stocker producers seeing good times. Let's start our discussion by looking at the stocker segment. Backgrounders and stocker producers have experienced a tremendous run of profitability. High gain costs inside feedyards has flattened the feeder cattle price curve (smaller price spreads between calves and yearlings), which results in more favorable purchase-to-sale price relationships for the stocker segment. In many areas, such as the Midwest and North Central Plains, by-product feeds have become abundant, helping stocker producers hold their production costs in check. The chart below tracks the price paid for each pound stocker producers add as they transform calves into yearlings. Note that since 2003/04, the price paid ranged from about $0.80 to $1.20 per pound. Gain costs for most producers averaged $0.50 to $0.60 during these years (higher than that recently), providing excellent earning opportunities.



It should be no surprise that in this favorable market environment, more producers have chosen to enter the stocker/backgrounder segment. While all other types of cattle operations became less numerous (including beef cow/calf, dairy cows, and feedlots), the ranks of stocker producers grew by approximately 7,500 operations---up16% since 2005. Many cow-calf producers sold cows to focus solely on stocker cattle, while some former feed-to-finish feedlots converted entirely to a grow-lot operation. There is no inherent problem with this trend, other than the U.S. beef industry must retain enough producers focused on producing the raw product (calves). We can’t all be in the stocker business or in the feedlot sector. An adequate number of operations must remain in the cow-calf business, especially now that our industry is experiencing greater demand than supply.

One key takeaway for cow-calf producers from this stocker discussion is that a profitable opportunity to put weight on your calves exists. Why hand these profits to the next guy in the supply chain if you have the ability to capture them yourself? As long as corn prices stay elevated and feedlot gain costs are high, the ability to use forage for profitable stocker gains should continue. Don't sell your calves too early or too light.

U.S. Cattle Operations---Breakdown by Category			
	2005	2010	Change
Total Cattle Operations	982,510	935,000	-5%
Beef Cows	770,170	742,000	-4%
Dairy Cows	78,300	62,500	-20%
Feedlots	88,199	77,140	-13%
Stocker/Backgrounder	45,841	53,360	16%

Fewer calf-fed cattle in the years ahead. A topic related to added profitability in the stocker sector is the mix of calf to yearling placements going into feedlots. Calves generally represent 15% to 25% of all feedlot placements. This includes freshly-weaned calves and calves weaned for 30 to 60 days. Yearling and long-yearling cattle weighing 750-lbs. or more represent 45% to 55% of total placements, with the remainder being short-yearling cattle.

High grain prices and greater stocker profitability will lead to fewer calves and more yearlings being placed on feed in the years ahead. This would have happened in 2011, but drought forced a huge number of cattle into feedlots, because they literally had nowhere else to go. During 2012-2014, we can expect calf placements to drop about 10-percentage points, with heavier yearling cattle increasing by that same amount.

At a time when linkages between packers, feeders, and producers are growing, these changes could present real challenges. The market will potentially become more volatile, due to the extreme seasonality of yearling cattle supplies versus calves and lighter cattle. Furthermore, branded programs could become harder to manage. Branded beef programs rely on a steady supply of the same type cattle. Where producer/ranch source information is part of the brand claim (more all the time), staying connected to the producer as the cattle move through the supply chain is a must. This may become harder to do as fewer calves are fed. Thus, the growing need to the development of true cattle/beef supply chains is something every progressive producer should think about. Are you producing cattle for a specific target or brand? If so, how are you linking your operation into a supply chain that captures maximum value for your operation as well as others involved in delivering that branded beef product to consumers? With a growing number of branded programs (many built around high-quality beef), it makes sense to target your genetics and management toward brands that offer premiums you can share in. You may need to work with a producer group, feedlot, or even directly with a packer to gain access to brand premiums. However, if you are willing to develop relationships beyond the ranch gate and commit to being part of a true beef-supply chain, greater opportunities will be available to you.

Doing what others choose not to. I want to wrap up this discussion with a few thoughts on what lies ahead for the cow-calf segment of the U.S. beef business. Some say the U.S. cowherd will never grow again. The land base is shrinking (pressure from crops and urban sprawl) and no one *'wants to work that hard anymore,'* according to the anti-expansion skeptics. Fine…maybe they are right, though I doubt it. That puts the person who remains in cow-calf production in an even better position. Fewer beef cows and growing beef demand is a sure-fire recipe for good times in the beef cow business. It is virtually always good to own a scarce commodity that is in high demand. More and more, that is what a cow and calf are becoming. I believe we are going to see unprecedented cow-calf profits over the next 3 to 5 years. Good times are ahead. Hopefully, it will be enough to get another generation of young cattle producers excited about ranching. World demand for agricultural products is growing and supply is limited, especially the meat protein supply. It was not too long ago, most farmers thought they would never see ***really*** good times and consistent profits year-after-year. Today, that has almost become the norm. Cow-calf producers, after a long drought (both literally and figuratively) could very well be next. Below is an example of what cow-calf profits could potentially look like at a $2 a pound calves. Wow!

Category	Average Producer	High Profit Producer
Annual cash outlays per cow	$500	$475
Calves weaned per cow	85%	88%
Average calf weaning weight	525 lbs.	540 lbs.
Unit cost of production (per lb.)	$1.12	$1.00
Average calf price $2.00 (per lb.)	$2.00	$2.00
Gross Profit per cow*	$393	$475

*Does not include depreciation and other non-cash costs.