3 Obstacles to Expanding the National Cow Herd

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QUIZ: TOP 3 REASONS WHY WE ARE NOT EXPANDING THE NATIONAL COW HERD
The Cow-calf Industry as a Business

- The Cow-calf Industry is an “Asset Management” business that must focus on the next seven years.
  - It is not a margin business
    - Buy and sell margins
  - Our Primary Assets are continually eroding
    - Our Breeding Herd
      - Average Replacement Rate is 16%
    - Machinery and Equipment
    - Fencing and Improvements
  - Approximately 45-50% of our total costs are Fixed Costs, not variable.

U.S. Beef Cow Inventory

January 1 Inventory

- Current Inventory is 32.0%
  - smaller than in 1975
U.S. Calf Crop
July 1 Inventory Report

All Cow Liquidation Continues
All U.S. Cow Slaughter
Monthly
BEEF COWS THAT HAVE CALVED
JANUARY 1, 1971
(1000 Head)

- Alaska: 2.6
- Hawaii: 89.0
- U.S. Total: 37,877

BEEF COWS THAT HAVE CALVED
JANUARY 1, 2011
(1000 Head)

- Alaska: 5.1
- Hawaii: 79.0
- U.S. Total: 30,864.6
What States are Losing Beef Cows?
Beef Cow Inventories Change From 1971

Alaska +3K
Hawaii -10K
U.S. Decreased 6.5 M

“Long Term Factors” Responsible for Reducing Beef Cow Numbers in Specific States

- Highest and Best for the Land
  - Construction
  - Other “Crops”
    - Corn
    - Yearling Grazing
- Rising Input Costs Relative to Calf Prices
- Regulatory Issues
Obstacle #1: Competition for Beef Cow Resources

- Primarily Land Resources
- Human Capital Resources
  ◦ Retirements
  ◦ Young human capital replacements

RISING INPUT COST CAN BE PARTIALLY OFFSET BY RISING PRODUCTION LEVELS IN MOST COMMODITY PRODUCTION
What Does This Chart Represent?

U.S. National Corn Yields

Trend Line Corn Yields: 2.6 bushels added each year.
(At $6.00 Corn Price, adds an additional $15.60/acre)
Beef Production per Cow is Increasing, Right?
U.S. Slaughter Weights

Productivity per Cow has not increased
How many calves can a cow have per year?

Pounds Weaned per Exposed Female Has Not Increased (1.2 pounds/Female)
Beef Cow Productivity

Pounds Weaned per Exposed Female

- Weaning Percentage
  - Pregnancy, Calving, Weaning
  - Influencers
    - Management
    - Nutrition
    - Weather

- Weaning Weights
  - Influencers
    - Weather
    - Days of Age
    - Genetics (Management)

Southwest SPA Results

- 2006 to 2010
- 78 herds
- 31 to 5,000 plus
- 26,876 females
- Average=345
Weaned Calf Percentage
One cow can only have so many calves per year

![Weaned Calf Percentage Chart](chart1.png)

Weaned Calf Percentage
One cow can only have so many calves per year

![Weaned Calf Percentage Chart](chart2.png)
Average Weaning Weights

Pounds Produced per Exposed Female
WE HAVE MAXED OUT C/C PRODUCTION WITHIN THE CONSTRAINTS OF THAT PARTICULAR YEAR’S WEATHER

Costs per Beef Cow Female
SW SPA Database - 1991 to 2010
Obstacle #2: Rising Input Costs Relative to Maximized Production

- Cow-calf inputs costs have almost doubled in fifteen years.
  - Feed (Corn)
  - Fertilizer (Demand from Competing Commodities)
  - Living/Labor Expenses
  - Depreciation
- Mother Nature can be a cruel production manager

Southwest SPA Results
Expense Breakdown per Female

Average Total Cost per Female = $588.21

- Average of 78 herds, 2006-2010
Average Price Received (or Assigned)

Dollars per Cwt.

Average Weaning Weights

Total Investment

Cost Value = $3,363
Market Value = $6,826
Southwest SPA Results
2006 - 2010

- **Average Gross Revenue = $540.41**
- **Average Total Costs = $588.17**
- **Average Net Income = -$47.76**
- **Rate of Returns on Assets**
  - Cost Basis = 0.68%
  - Market Basis = 1.08%

- **$716.41 per weaned calf**

Expected Income From Today’s Bred Heifers
Obstacle #3: Overall Profitability Relative to Total Investment Necessary

- Market Prices for calves will be high for several years to come
  - Caveat: Replacement costs will also be high
    - Will the prices be high enough to cover the replacement female cost and high(er) annual input costs and still give you a reasonable return on your investment?

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    - Machinery and Equipment
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So, Why Aren’t We Expanding?

- Rising Input Costs Relative to Future Risk and Return
- Competition for Land Resources
  - Highest and Best Use
- Our Fixed Costs are already “Fully Utilized”
  - We are already “stocked up” on available land
  - We are already “fully employed” given labor resources willing to work hard and earn less

Couple These Production Factors with (somewhat rising) Demand

- Non-USA countries have an increasing middle class (increased beef demand)
- US consumers trading down their beef demand due to budget constraints (steady to increasing beef demand)

And you have a situation of higher calf prices until...
Until (Implications)

- ...the US feedlot industry gets smaller and,
- ...the US Packer industry gets smaller,
- ...and/or outside investment dollars increase it’s flow into the cow-calf industry, which typically supports inefficiency operations,
- ...or consumers (both US and foreign) decide that beef is just too expensive.

3 Reasons We Won’t Expand the National Cow Herd (as rapidly as other Industry Participants Want Us to)

1. Competition for Resources
   - Primarily Land
   - But, includes Labor
2. Rising Input Costs Relative to Maximized Production
3. Overall Profitability Relative to Total Investment Necessary
Questions/Comments

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