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DEALING WITH A DOWN-CYCLE IN THE CATTLE MARKET

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INTRODUCTION

It's no secret that the cattle market is in a down-cycle. Cattle numbers and beef supplies are on the rise. Cattle prices have declined significantly during the past two years, and will probably continue trending lower for another year or two.

Lower calf prices are creating a major cost/price squeeze for many producers in the cow/calf segment of the industry. Cattle-Fax estimates that less than 25% of U.S. cow/calf operations will be profitable in 1995. Over half of all producers will see significant red ink.

BE A LOW-COST PRODUCER

Given the current market situation--and the likelihood that things will not improve any time soon-- many are asking what a cow/calf producer can do to survive the current down-cycle. Probably the best answer to this question is: *become a low-cost producer*. Make sure that your operation is as cost-efficient as possible. Remember that price is only one-half of the profit equation. Production costs are the other half. The cost structure of your operation is just as important as price in affecting the bottom line of your business.

With that in mind, it's worthwhile to evaluate differences in production costs among cow/calf producers in the North Central Region. As in other parts of the nation, there's a lot of difference in calf break-evens among producers in this region. Some are very efficient producers with low break-evens. Others are less efficient, and the break-even price on their calves is considerably higher.

LOW-COST VS. HIGH-COST PRODUCER COMPARISON

Based on Cattle-Fax survey data, the low-cost third of producers in Nebraska, South Dakota, Colorado and Wyoming had an average calf break-even price of \$58/cwt. in 1994. The high-cost third of producers needed \$88/cwt. just to cover cash expenses and operate at break-even. Assuming these two producer groups sold calves on the same market, net income per cow would have been \$136 higher within the low-cost producer group. This is a sizable difference, and it's directly attributable to differences in unit-production costs between these two producer groups.

The table below compares low-cost and high-cost producers for several key cost and production measures in the cow/calf enterprise. Note that of the \$136 difference in net income,

\$98 or 72% of the total was attributable to differences in annual cow carrying costs. Low-cost producers spent almost \$100 less per cow per year, which gave them a major advantage compared to high-cost producers.

Cow/Calf Producer Comparison (NE, SD, CO and WY)

	Low-Cost Producers	High-Cost Producers
Annual cow cost	\$272	\$370
Weaned calf crop percent*	88.5%	86.8%
Average wean weight**	534 lbs.	485 lbs

* Percent of exposed cows

** Steers and heifers/205-day weight

Despite spending less to maintain their cow herd, low-cost producers clearly did a better job managing the health and nutrition of their cows. This is illustrated by the higher percent weaned-calf crop and heavier weaning weights they enjoyed compared to the high-cost group. Heavier weaning weights gave low-cost producers a \$32 advantage in net income per cow, while their higher weaned-calf crop percentage contributed another \$6 per cow.

Analysis of low-cost producer herds reveals that they save money by spending less on winter feed (usually about \$50 per cow less than high-cost producers) and have lower debt service expenditures compared to high-cost producers. High-cost producers in the survey had average debt of \$529 per cow. Low-cost producers had \$375 of debt per cow on average.

Low-cost operators also do a better job of controlling other expense items such as those associated with fence and machinery maintenance, fuel purchases and rearing replacement females. These items typically account for only 15% or 20% of total expenses. Yet, differences in expenditures on these items often account for \$30 to \$40 of the total difference in annual cow costs between low-cost and high-cost producers. Watching and controlling small expense items is clearly important to keeping overall costs down. It's part of being a low-cost producer!

Low-Cost Producers Know When to “Pay Up”

There are at least three areas of the cow/calf operation in which low-cost producers don't spend less than their high-cost counterparts. These include? Purchased bulls, herd health maintenance and leased pasture. Low-cost producers spend as much or more in these areas, probably because they have determined that these are not beneficial places to cut costs. Consequently, part of being a low-cost producer is knowing where to cut, and where not to cut expenses. Some areas of the operation are so important (like genetics and herd health) that a sizable reduction in spending could actually reduce net income.

Conclusion

Becoming a low-cost producer will help cow/calf operations of all sizes weather the current down-cycle in the cattle market. While, price is half of the profit equation, production costs are the other half, and they are easier to control. Many producers can significantly lower their operating costs, though it will take commitment, discipline and thorough analysis of current spending patterns. Open-minded producers will look for alternative ways of getting necessary tasks done. They will search for ways to reduce spending without reducing herd productivity, and will thereby improve their operation's chance of surviving during the two or three tough years ahead.