

An Informed Veterinarian Can Help Clients Profit From The Cattle Cycle¹

By

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Part II -- Helping Your Clients Make The Cattle Cycle Work For Them

Last month's Part I of this two part series focused on helping veterinarians understand cattle cycles, described how cattle cycles cause beef price cycles, and explored the implications of "U" shaped beef profit curve. This month's article focuses on the management strategies that your beef cow clients might employ to take advantage of the cattle cycle. When your beef cow clients profit from the cattle cycle, your veterinarian business also profits from the cattle cycle.

How Will The Typical Rancher Response To Today's High Prices?

Typical cow herds do grow and shrink as we go through time. For example, today's high cattle prices are going to trigger a beef cow herd expansion through the holding back of additional heifer calves for replacements. By the time that these retained heifer calves produce their own calves and these calves are slaughtered, the price signal will be to contract the beef cow herd. Due to the cyclical nature of the cattle cycle, holding back additional replacement heifers during times of high-prices, tends to produce additional calves during times of low-prices. The net result of all of this, a typical rancher

¹An earlier version of this paper was presented at the Association Of Bovine Practitioners 2000 Conference in Rapid City, South Dakota September 23, 2000. Since the September 23, 2000 paper, I have updated my cattle cycle analysis to include the impact of the year 2000 drought and my cattle cycle projections have been adjusted accordingly.

tends to sell fewer calves when prices are high and he tends to sell more calves with prices are low.

Research Suggests an Alternative Culling Strategy

Research at Iowa State University suggests that what is needed is a heifer retention strategy that will increase production in the profitable years and reduce production in the unprofitable years. This same research suggests that such a heifer retention strategy would generate a higher average profit and a greater net worth over the complete cycle than the more traditional replacement strategy.²

So... What Are Some Alternatives?

Let's turn our attention to management strategies designed to take advantage of the cattle cycle by increasing production during the profitable years and reducing production during the un-profitable years. I will focus mainly on strategies uncovered during my 10 years conducting Integrated Resource Management (IRM) analyses of Northern Plain's beef cow herds.

a. Maximize Your Bottom Line In The Profitable Years And Build A Financial Reserve

During the low-price time periods, like 1994, 1995, and 1996, producers should generate their cash flow needs from cull cow sales and steer calves sales while holding back their heifer calves. During the low-price times, I suggest that beef cow producers cull and cull deep by identifying and removing individual cows that are losing money and replace them with low-priced retained heifers.³

²John Lawrence and Zhi Wang, "Profiting From The Cattle Cycle," SP-41, July 1996, Department Of Economics, Iowa State University.

³During the decade of the 1990s, I spent my spring months going from kitchen table to kitchen table analyzing the cost and returns for Integrated Resource Management (IRM) cooperators' beef cow herds. For herds with CHAPS herd performance records, we could calculate costs of production for 18 different groups of cows in the herd -- 6 grouped by 21day calving intervals, 11grouped by age of cows, and a final group made up of the total herd.

Substantial appreciation can typically be gained by growing these low valued heifer calves into productive mature cows that can be marketed during periods of high prices. Then, on the upward part of the beef price cycle (1999 through 2002), a beef cow producer should not hold back any replacement heifers and sell every calf born at the high prices and build a financial reserve.

The key here is the “financial reserve.” A reserve built in the good times will help ensure that the business does indeed make it through the next low-price period. Yes, there will be another low-price period in this decade and my current projections are for this low to be in years 2005 through 2007.

This management strategy focuses on building a financial reserve during times of high-calf prices.

b. Hold Back Heifers Only During Times of Low-Prices

Do any of your clients have their 1996 heifer calves? Remember, 1996 generated decade-low prices and beef cow producers had to give their heifer calves away. Let’s see born in 1996, bred in 1997, and calved in 1998, 1999, 2000, 2001, 2002, 2003 etc. right over the top of the calf price cycle (see price cycle calf price projections in Figure 1).

Heifers born during the low- price period tend to produce calves during the next high-price period. Heifers born during the high-price period tend to produce calves during the next low-price period. This strategy focuses on only holding back heifer calves that will produce calves during times of high prices.

c. Don’t Always Cull Cows With Small Calves

My economic analyses in the early 1990s did not validate the standard recommendation to cull

all cows with late-born calves. In 1990 through 1993, every cow that had a calf, regardless of when the calf was born, made a profit. I concluded from this early IRM work, that the high-priced time of the beef price cycle was not the time to cull cows with late-born calves.

My IRM analyses also indicated that while some high-producing cows generated a profit from 1994 through 1996, many of the low- and middle-producing cows did not generate a profit during these tough years. I concluded that the proper time to cull cows with late-born calves is during the downward portion of the “U-shaped” price curve and to cull these cows as they became unprofitable. Culling these unprofitable cows during 1994's, 1995's and 1996's low prices proved to be more profitable.⁴

Don't know which cows are unprofitable? My IRM Herd Analyzer calculates costs and returns for 18 different cow groups within a cowherd. Yes, we can identify those cows within a herd that are making and/or losing money each and every year. The power of these analyses is that we can also project which cows will make money which will lose money next year.

The above strategy focuses on the economic concept that reduces a herd's production when its unit cost of production is above market price and expands a herd's production when its unit cost of production is below market price. A producer does, however, need to know his unit cost of producing a hundredweight of calf. All of my IRM cooperators know their unit cost of production.

d. Age The Cow Herd To Maximize Life-Time Production During High-Price Times

The average age of a cow herd at specified times of the cattle cycle makes a difference in

⁴In fact, bred cow prices were still very strong in 1994 even though calf prices were weakening.

profits. Ideally, one should have had all his cows at four years of age in 1999. That way, their life-time maximum annual production (as 5, 6, and 7 years olds) would be during the current high-priced years. Easier said than done.

Many herds managers, however, do the opposite and actually age their cow herds by reducing cullings during the low priced years of a cattle cycle. Then, when calf prices are high, they have to cull heavier and, rather than selling their heifer calves for high prices, they have to hold back more heifers for replacements. Having a young cow herd right today will generate a favorable difference, as compared to an older cow herd, in the economic performance of that herd over the rest of this decade.

This strategy focuses on generating a young cow herd going into times of high prices so that the herd manager can sell all calves born during the high prices.

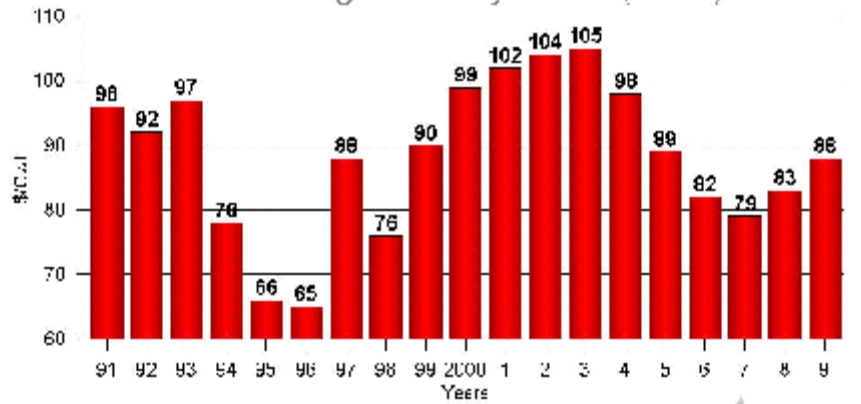
Summary

Should a beef cow producer cull the same on the downward side of the beef price cycle and on the upward side? I hope you now agree with me when I say: "I don't think so." When and how your beef cow clients make their culling decisions during a cattle cycle, makes a difference in their bottom lines and, in turn, your practice's bottom line.

North Dakota Price Projections

Oct Ave For 500-600 Lbs Steer Calves

Harlan's Long-Run Projections (2001)



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Figure 1: Long-Run Calf Price Projections

