

The Sky is Falling! What about Revenues?

Andrew P. Griffith

Many cattle producers feel as if the sky has fallen because of the drastic decline in cattle prices from the record highs in 2014 and 2015. What made producers think record high prices were here to stay? Nothing in history suggested prices would stay elevated. The market had 18 to 20 abnormally strong months which convinced most people in the market that higher prices were here to stay. However, reality has set in and producers are back to price levels witnessed in 2012 and 2013 (see graph). (There is not a single person in the cattle and beef industries that was not fooled to some degree by the price fluctuations!)

With the price decline, there has been a lot of grumblings from cow-calf producers saying they will not be able to make any money at these price levels. If that is the case then it begs to question why those producers stay in the business. The economic answer to that question is that businesses continue to produce as long as variable costs are covered which has been the case in many years for cattlemen. This provides a perfect opportunity to compare yearly revenues for freshly weaned calves being marketed in the fall of the year.

Assuming producers marketed 550 pound freshly weaned steers in October, total revenue per head by year was \$762 (2012), \$847 (2013), \$1,322 (2014), and \$1,020 (2015). It is all but guaranteed that cow-calf producers were profitable in 2014 and 2015. However, making such a blanket statement for 2012 and 2013 is a little dicey.

With the discussion of marketing calves in October, the question now is what opportunities does the fall marketing time period for 2016 present. Thru the middle of August, October 2016 prices are shaping up to look very similar to the October price in 2012 which means total revenue of \$762 per head. Using the projected cost of production in the 2016 cow-calf enterprise budget, returns over variable costs are estimated to be \$118 per head. However this does not account for fixed expenses. Additionally, this calculation does not account for heifer sales which are usually \$10 to \$15 per hundredweight behind the steer price as well as the heifers being lighter at marketing.

If the projected revenue stream for October marketing is not to one's liking, another consideration would be to wean and precondition the calves for a couple of months and market the animals in early to mid-December. Assuming producers added 100 pounds and marketed 650 pound steers in December, total revenue per head by year was \$864 (2012), \$995 (2013), \$1,487 (2014), and \$932 (2015). These revenues do not consider any value added marketing price, but in most instances weaned cattle will bring a small premium compared to their unweaned pen mates. If 2016 prices stay on trend with 2012 then the value of gain is about \$1.02 per pound. This means a producer that is able to put a pound of gain on an animal for less than \$1.02 per pound could increase profits by weaning and adding weight to calves.

As prices ratchet down, producers will have to be more creative in their marketing scheme and production practices to increase calf value and to reduce cost in such a manner that any losses in production efficiency do not exceed the costs reduced. As previously stated, producers will continue to produce cattle as long as revenues exceed variable costs. However, cattle producers should be cautious of this practice over an extended period of time, because this practice results in one living off depreciation of equipment, facilities, breeding stock, etc. At some point, depreciable items must be replaced and the failure of revenues to exceed total costs will cut into equity in a hurry.

There is no silver lining to this story. Producers better start cinching up the belt as prices are expected to continue declining. Producers are going to have to be innovative and expose themselves to thought provoking activities in order to weather the storm. God promised the world would end, but He did not mention anything about cattle prices leading the way. Thus, the sky is not falling, but cattle prices are.

**TENNESSEE 500-600 LB. STEER PRICES
2012, 2013, 2014, 2015, and 2016, Weekly**

