Marketing Cattle through the Good and Bad

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It is a bit of an understatement to say cattle producers have had a tough go of it the past eight or nine months as it relates to cattle market prices. The first event causing market prices to decline was the Tyson packing facility fire in August which was then followed by the coronavirus pandemic. Both of these events caused disruptions to the beef supply chain which resulted in cattle prices faltering and failing to meet expectations. It is this failing to meet expectations that has been the focus of many in the cattle industry.

Most of the frustration in the industry has been directed toward slaughter and packing facilities. This frustration comes because packers have been paying less for finished cattle and wholesale beef prices have been escalating which makes many people think that packers are taking advantage of the situation. In order to avoid the lengthy discussion this could get into, packers are doing pretty well in the current environment on a per head basis, but they are not harvesting nearly as many head as might be most profitable. At the same time, many in the industry forget about the times when packers were losing money. If the meat packing industry was such a lucrative business and was a guaranteed big return then more people would be getting in the business, but on average, this is a small margin business that requires a lot of capital and a lot of throughput.

Despite everything that is frustrating and the struggles of the current time period, cattle marketing must continue just like it did in 2014 and 2015 when cattle prices were reaching record levels. Most cattle producers who have been in the industry very long are familiar with the cattle cycle and prices moving higher or lower depending on where the industry is in the cattle cycle. The current depression in prices has nothing to do with the cattle cycle, but it does present opportunities and some similar management strategies as the cattle cycle.

From a cow-calf producer standpoint, these extremely low calf and feeder cattle prices present the opportunity to reduce the age of the breeding herd. This can be done by marketing a higher percentage of older and poorer producing cows and either retaining an increased number of heifers as replacements or purchasing heifers that are ready to breed. This opportunity is easier to understand when values are in place. Based on monthly average prices in Tennessee in April, a 550 pound heifer was valued at $630 per head, a backgrounded long yearling heifer was valued at $750 per head, and 1,200 pound slaughter cows averaged $700 per head. Thus, cash flow of an operation could be maintained by marketing slaughter cows and putting younger animals in the breeding herd. The females placed in the breeding herd during this price depression have the potential of being very profitable females because the depreciation cost will be very low.

The perspective is a little different for the stocker operator. The stocker operations that were forced to market cattle in the depressed market will suffer some significant losses due to purchasing animals on a fairly strong market and then having to sell cattle on a soft market. However, those who purchase and sell cattle year-round will experience strong margins once the prices begin to recover. There are producers who will say that lightweight cattle prices never really declined during the pandemic, but prices did not increase during a time period they generally increase. Thus, many of these cattle will likely result in strong margins in the future. For the margin operator, it is a matter of surviving now in order to thrive down the road. The same discussion holds for cattle feeders.

It is difficult to anticipate that this market will improve when one is in the midst of a market that is struggling. However, it is imperative to plan now for a market that is expected to improve moving forward. The decisions made today can and will influence future returns. One way for cow-calf producers to strengthen their position is to reduce the average age of their breeding females and bring in better genetics. The opportunity for margin operators is to continue purchasing low valued animals because the market will turn around.