Cow Country Reporter

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News from your CEO

We are in the last month of the year 2018 and thank God! This year has been the year for challenges in agriculture. Weather was the main factor that caused a good bit of heartburn. The bottom line for us in the cattle business is many cattlemen were not able to harvest enough hay to get their cow herd through the winter. Hay is scarce everywhere and decisions were made to reduce numbers or buy hay which neither of these options are positive. Couple them with low cull cow prices and the outlook is not pleasant. The majority of this newsletter has to do with cow numbers and prices to give one some information that may help with the decision making. Region 5 had a very informative meeting in November where the topics included Alternative Treatment for Liver Flukes, Using Cover Crops to Extend Grazing, Traceability Update, Programs Provided by NRCS and insight on Retained Ownership of Your Calf Crop. Forty-five people enjoyed the hospitality and meal provided by Amite Livestock, Dominique Livestock and Tri-Parish Co-Op at Sheriff Austin Daniel Ranch, St. Francisville. We need to have more of these meetings, CALL ME!

As this year comes to an end, CPL Executive Board wants to give thanks to each and every member for your support and may you and your family have a Merry Christmas!

Dave Foster, CEO

Cull cow market struggles to find a bottom

By: Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist

The cull cow market likely reached a seasonal low in November but it has been difficult to understand this market this year. Prices for Breaker cows in Oklahoma City averaged $50.13/cwt. in November, nearly 11 percent lower year over year, while Boning cows averaged $47.88/cwt., over 16 percent down from one year ago. Cull cow prices have been counter-seasonally lower year over year from May through October and have averaged 13-15 percent lower year over year for the last seven months.

Cull cow prices typically begin a slight recovery in December following the November seasonal low. Cull prices average a much stronger seasonal increase after January 1, increasing by 6.7 percent in January from the November low; with February up 16.2 percent; March up 18.75 percent; April up 19.6 percent and May up 21.1 percent all from the November low. From current levels, this would suggest breaking cow prices of $53.47/cwt. in January; $58.26/cwt in February; $59.53/cwt. in March; $59.94 by April and $60.85/cwt. by May.

The question is whether the normal seasonal price increase can be expected given how weak the cull cow market has been since May of this year. One of the big factors contributing to weak cull cow prices has been weak cow boxed beef prices in the second half of 2018. In the last week of November, cow boxed beef prices were 7.8 percent lower than year earlier levels and have averaged 8.3 percent lower year over year since mid-year.

Increased supplies of cow beef is no doubt part of the cause for lower cow beef (and cull cow) prices. Total cow slaughter is projected to be up 7.2 percent in 2018 over last year, with a projected 9.6 percent year over year increase in beef cow slaughter and 4.9 percent increase in dairy cow slaughter. This is higher than the 2017 year over year increase of 6.3 percent in total cow slaughter. Total cow slaughter in 2019 is forecast to be flat to slightly lower year over year and should reduce the supply pressure a bit following three years of increasing cow slaughter. Beef imports, the bulk of which are processing beef that compete with cow beef, have been flat in 2018 and are forecast to decrease 3-5 percent in 2019.

While overall beef demand has been strong in 2018, the demand for cow beef is more uncertain. The bulk of cow beef is used for ground beef. It is possible that ground beef demand is facing more pressure from large supplies

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of pork and poultry compared to beef middle meats. Cow beef (90 percent lean) is mostly used to mix with fed trimmings (50 percent lean) to make the appropriate ratio of lean to fat in ground beef. Fed trimmings prices have remained close to year ago levels in contrast to the weakness in cow beef prices. Increased fed slaughter in 2018 and forecast larger slaughter again in 2019 would seem to suggest ample fed trimmings supply to support cow beef prices. However, growing exports of some fed products, such as navels, that historically were part of fed trimmings may be the reason for stronger fed trimmings prices relative to cow beef prices.

With all that said, I expect that a relative tightening of cow beef supplies will help cull cow prices to follow close to a normal seasonal increase going into 2019. Like all beef markets it is dynamic and evolving and bears watching in the coming months.

Beef cow herd dynamics returning to normal

By: Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist

The beef cattle industry has experienced some extraordinary dynamics in the past decade that provoked unprecedented volatility and record price levels. An aborted expansion attempt in the mid-2000s was followed by more herd liquidation through 2010; followed by even more drought-forced liquidation in 2011-2013 that pushed cow numbers two million head lower than anyone planned or the market needed. This provoked a dramatic market response to jump-start herd expansion and pushed the parameters of herd dynamics to extreme limits. Only now are herd dynamics beginning to return to normal levels.

The beef cow herd likely increased less than one percent year over year in 2018 to a projected January 1, 2019 level of about 31.9 million head. This may be the cyclical peak in herd inventory or very close to it. From the 2014 low of 29.1 million head, this cyclical expansion has increased the beef cow herd by 2.8 million head or 9.6 percent over five years. The last full cyclical herd expansion occurred in 1990-1996 resulting in an 8.8 percent herd expansion in six years.

Part of herd expansion is heifer retention, commonly measured by the January 1 inventory of beef replacement heifers as a percent of the beef cow inventory. This percentage has averaged 17.6 percent over the last 30 years. The percentage increases above average during herd expansion and drops below average during herd liquidation. From a recent low of 16.6 percent in 2011, the replacement heifer percentage increased rapidly and averaged over 20 percent from 2015-2017. The peak of 21 percent in 2016 was the highest heifer replacement percentage since historic herd growth in the 1960s. The percentage dropped to 19.3 percent in 2018 and is projected to drop to 18.0-18.5 percent in 2019; still above average but returning closer to normal.

Increased heifer retention reduces the number of heifers in the slaughter mix. This can be measured several ways including the ratio of steer to heifer slaughter. Fewer heifers slaughtered increases the ratio of steers to heifers slaughtered. This ratio has averaged 1.71 over the last 30 years. The ratio increased to 2.143 in 2016, the highest levels since the early 1970s, and has been moving back to more typical levels since. The ratio dropped to 1.948 in 2017 and is projected to drop to about 1.83 in 2018. Heifer slaughter was up year over year by 11.9 percent in 2017 and is projected to be up by 6.0-6.5 percent again in 2018. This is the process of heifer slaughter returning to normal levels as heifer retention slows.

The other part of herd expansion is reduced cow culling. Annual beef cow slaughter as a percent of January 1 beef cow inventory has averaged 9.5 percent over the last 30 years. Beef cow slaughter dropped sharply from 2012 – 2015 resulting in a record low beef cow culling percent of 7.63 percent in 2015 and a below average culling rate from 2014-2017. Beef cow slaughter has seen annual increases averaging 11 percent year over year since 2016, including a projected 10.1 percent year over year increase in 2018. At the current rate, beef cow culling in 2018 will be 9.7 percent, very close to the long-term average culling rate. Herd expansion significantly reduces the role of females in beef production. The sum of heifer plus cow slaughter as a percent of total slaughter reached a 40-plus year low in 2016 but is slowly returning closer to normal levels in 2018.

Should the beef cow herd stabilize near current levels, as it appears now, we would expect to see the cattle slaughter mix return to long term average levels. Total 2018 cattle slaughter is projected at 33.15 million, including steer slaughter at 51.3 percent of the total compared to a 50.7 percent long-term average; heifer slaughter of 28.0 percent (29.9 percent average); and total cow slaughter of 19.0 percent (17.7 percent average). This includes beef cow slaughter projected at 9.4 percent of total cattle slaughter in 2018 compared to a 9.3 percent long term average. Bull slaughter is projected at 1.7 percent of total slaughter, close to the long term average of 1.8 percent.

Tyson predicts 6 food trends for 2019

What do consumers want in 2019? A new generation of consumers are demanding much more than the traditional taste, nutrition and price.

By: Amanda Radke

As our consumers continue to evolve, the challenge for producers becomes adapting to meet these new demands and shifts in the food retail space.

Think about how food priorities have changed with each generation.

The Greatest Generation, who had seen war and experienced the Great Depression, wanted their foods to be affordable, tasty and nutritiously filling.

The Baby Boomers, who were really the first generation to have both parents working outside of the home, looked for convenience foods to be eaten on the go and 30-minute meals that could be prepared after the long work day.

In the past decade, we've seen Millennials seek products that align with their values and personal convictions. For example, this generation may follow a diet plan such as Whole30 or Paleo that promotes health and wellness, but also focuses on how the animal was raised or what the environmental impact might be.

So what about Generation Z? Also known as Post-Millennials, these kids were born between 1996 and 2010 and are the largest generation at 2.52 billion people.

Tyson predicts 6 food trends for 2019

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This generation is entering college and beginning their adult lives. With their purchasing power, it would behoove all of us to sit up and pay attention to what they want in their goods and services.

Tyson Foods is the largest food company in the U.S. In order to better serve its customers, the company has created a Tyson Trendtellers Council, which is made up of a dozen of the company's top food thinkers and innovators. These foodies explored what's on the horizon for food in 2019 and beyond, and they arrived at six distinct trends to watch for.

1. Personalized foods to promote health and beauty

Consumers are looking to eat foods that fuel their brains, promote digestive health and make them more beautiful with shinier hair, softer skin and stronger nails. DNA testing is now available to help create personalized eating plans for individuals with these goals in mind.

According to Tyson, "Silicon Valley gave rise to bio-hacking using the science of the body to create a 'shortcut' to greater health. In 2019, more people will be thinking strategically about eating foods that help give them energy, focus and sharper thinking. Imagine boosting your morning coffee with a 'smart' snack that makes your mind crackle with energy."

2. Transparent food takes hold

Per Tyson's report, "39% of consumers say they are willing to switch brands that use more transparent labels. New technology is providing everyone, not just experts and professionals, with background information about their food. The concept of tracking food from farm to table, which first took hold with some smaller brands, will become a focus for big food in 2019.

"Technologies such as blockchain are poised to drive change, with some retailers and companies tracking food from sourcing to shipping to store. New bar code technology is also enabling shoppers to scan a product code with their smart phone and see the farm the chicken came from, how far it traveled and even view a picture of the farmer who raised it."

3. More protein in more forms

Good news for beef producers; consumers want more protein!

According to Tyson's Trendtellers, "Since 2014, consumption of beef, chicken, pork and turkey have each been on a steady incline, reaching record highs in 2018 in the U.S. Expect this demand to continue into 2019 as consumers are actively looking to add more protein to their diets."

However, a big caveat is consumers are wanting to diversify their protein sources. Expect insect proteins to gain in popularity, as well as veggie burgers and lab-grown proteins.

4. Food that thinks and talks

The next generation is more likely to use smart technology than previous ones. Think smart phones, smart fridges and smart kitchens!

"As the intersection of food, technology and people expands, food brands are seeking new ways of leveraging tech to better connect with buying audiences," says Tyson. "That means some pretty nifty futuristic gadgets are coming down the pike. Recipe apps that 'talk' to kitchen appliances and ovens that 'read' recipes will roll out in 2019, as consumers begin to experience the power of technology and food coming together. Some of these new technologies also have the potential to lower food waste."

5. Food brands are people, too: Food as a form of self-expression

Move over Nike. There is a new brand in town, and it's not the label on your clothes that matter; it's the label of the protein bar or shake in your workout bag that really reflects who you are and what you stand for.

According to Tyson, "Today, consumers are aligning with companies that represent similar values to their own. For Gen Zers in particular, food is more than sustenance – it is a symbol of their personal values and a form of self-expression.

"Gen Z was raised to be real and true to themselves and, as a result, they expect the same from the food brands they buy. They often are noted as having the highest food IQ compared to past generations and are one of the largest consumers of organic and non-GMO foods. Clean eating is important to them and their quality of life. Fresh, sustainable, authentic foods are lifestyle choices."

6. Global thrill-seeking cuisine: The fusion of flavors

The Trendtellers say, "Take the satisfying chewiness of a spicy tuna roll, add the pleasing heft of a burrito, then throw in some of the zingy flavors from Vietnam or say, South America, and you've got one of the biggest trends of 2019 – global cuisines and out-of-the-box flavors, the kind usually only found in restaurants, making the shift to the home. (And why not, it sounds amazing.) These global thrill-seeking cuisines marry flavors, techniques and tastes from regional and ethnic cuisines to create something entirely new and delicious."

Some of these trends may seem pretty out there. Do you want to eat a cricket patty? However, the beef industry must evolve and push the envelope to appeal to this next generation of consumers.

Don't underestimate their power because they are young. These folks will soon be in the driver's seat, and whether we like it or not, their tastes and preferences will steer the course for food in the decades to come.

The opinions of Amanda Radke are not necessarily those of beefmagazine.com or Farm Progress.

IS SALES PRICE OF CATTLE THE MAIN DETERMINANT OF PROFITABILITY?

Although price is important, cow maintenance costs are critical.

By:Nevil Speer

Annual cow costs were the focus in last week's Industry At A Glance. The focus was based on data from the Kansas Farm Management Association (KFMA), one of the largest farm management association programs in the country.

Most important, data derived from KFMA is very useful with respect to benchmarking and trends within the beef industry. Many of the participants represent mostly mid-size (including both diversified and full-time) operations and possess a long-standing track record enabling meaningful comparisons over time.

As noted, last week's discussion highlighted annual cow costs, both direct and indirect costs, categorized by profit segments: low third, mid third and top third, respectively. Most pertinent to this discussion, the data emphasize that production and selling price obviously impact profit – but the largest component in segmenting the differences among these groups are differences in cow costs. In other words, the differences across other factors don't impact profitability nearly as much as maintenance costs.

For example, between 2005 and 2017, the average cow cost was $748, $858, and $1,046 for the top, middle and low profit groups, respectively. That represents a $298 difference between the high and low categories (or 40%).

Meanwhile, the marketing rate varied only 2% among the three groups with the top third actually possessing the lowest rate (82% vs. 84% for the bottom third profitability group). And last, marketing weights were 593, 580, and 571 pounds for the top, middle and low groups, respectively.

To further emphasize the importance of costs, this week's illustration highlights average sales price across the groups. The average sales price stood at $138.70, $140.25, and $135.70 per cwt for the high, mid and low profit groups, respectively.

In other words, there's no real difference between the groups when it comes to selling price – at least not one which would explain the large differences in profitability (more on that next week).

How do you perceive the importance of cow costs with respect to profitability? *Simultaneously, what's your perception of the importance of production variables as it equates to the bottom-line? Leave your thoughts in the comments section below.*

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