

Cow Country Reporter



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News from your CEO

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The year 2020 is coming to a close and what a year it has been! We started thinking that our cattle markets would be higher, however, Covid-19 showed up and everything went downhill from there. Throw in some hurricanes, wildfires and half the food industry shut down and one can see a disaster taking affect. In March the feeder cattle and slaughter cattle prices started trending lower and never did get much better until the last two months of the year, with the exception of slaughter cow prices which stayed pretty decent until Summer and then faded lower. At our local auction markets in Louisiana we saw an increase in herd dispersals during our "Fall cattle runs" (August-November). Our heavy marketing of calves normally occurs starting in mid-August and ending in mid-October; not so in

2020. Many cow/calf producers held on to their calves due to low prices and our local auction markets had higher receipts all through the month of November. If nothing else, 2020 forced our cattlemen to be more flexible. The lessons learned through this disastrous year will certainly assist us in being more flexible in our marketing of cattle and realizing that our ability to grow forages is a positive to our operation. So, let's put the year 2020 behind us, use the lessons learned to improve your cattle operation and know that by working together we are stronger.

May each of you and your families enjoy this Christmas season and give thanks for our many blessings. May 2021 be a prosperous one and may you and yours have a healthy New Year!

Dave Foster, CEO

FALL FEEDER CATTLE MARKET DYNAMICS

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

Feeder cattle markets have displayed very dynamic movements this fall that have implications for cow-calf and stocker producers. Figure 1 shows how feeder cattle prices have evolved this fall using price-weight lines for three different weeks in August, October and November

The green line in the chart shows the Oklahoma steer price by weight in August with a typical pattern of prices mostly declining as weight increases. Feeder prices declined seasonally, as expected, into October as shown in the red line in Figure 1. As often happens in the fall, prices for steers from 575 to 725 pounds decreased more than lighter and heavier animals. The result is a price line that becomes bent with sharper declines in prices (a bigger price rollback) for animals under 575 pounds and a very flat price structure with little change in prices for steers from 575 to 875 pounds (red line, Figure 1).

After posting lows during the winter storm in late October, steer prices for calves and stockers increased sharply in November though prices for steers over 600 pounds have changed little as shown in the blue line in Figure 1. The result is a sharper bend in the price-weight line, with an even steeper price rollback for steers up to 600 pounds.

For cow-calf producers selling calves at weaning, price level is the most important determinant of revenue. The price of 500-pound steers dropped from \$165.36/cwt. in August to \$154.06/cwt. in October before bouncing back to \$166.97/cwt in November. The steep rollback most recently does affect the value of limited weight gain for calves. For example, the most recent prices mean that the value of an additional 50 pounds on a 500-pound steer is about \$0.50/lb. For producers holding calves after weaning, the low value of gain must be balanced against the value of preconditioning programs and extra weaning time before sale. The implications of current market conditions depends on the current weight of animals and the amount of additional weight added to animals prior to sale.

Changes in the price-weight line have different impacts on stocker margins as reflected in the value of gain. Using a stocker gain of 250 pounds from 500 to 750 pounds, the value of gain in August was \$1.02/lb. In October, the

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FALL FEEDER CATTLE MARKET DYNAMICS

value of gain was slightly higher at \$1.05/lb. based on lower prices for both 500 and 750-pound steers. In November, the higher prices for the lightweight animals resulted in a lower value of gain of \$0.74/lb. Of course, a 500-pound stocker purchased now will not reach 750 pounds for some time. However, March feeder futures price was \$134.48 recently and with an expected early March basis of \$1.69/cwt for 750-pound steers in Oklahoma suggests a final price of \$136.17/cwt., close to the current cash price of \$136.03/cwt.

The important point is that feeder markets have been very dynamic and it means that both cow-calf and stocker producers must constantly evaluate changing market conditions. Feeder markets are reflecting a mix of influences including seasonal supplies of calves, wheat pasture forage conditions, higher corn prices and volatility in futures markets.

PACKER GROSS MARGINS FOLLOWING COVID-19

Here's a look at how packers have fared in the wake of COVID disruptions.

By: Dr. Nevil Speer

Just about a year ago, this column highlighted packer gross margins (often referred to as the live-to-cutout spread) following the fire in Tyson's Holcomb plant. That focus followed ongoing debate/discussion related to the sharp spike in margins the ensued from the disruption in Finney County, and to offer some longer-run context given the coverage that was occurring around the topic.

As review, the live-to-cutout spread represents the difference between revenue derived from sales of hide and offal plus the wholesale value of beef cuts from a Choice carcass, less the cost of a fed steer. In other words, it represents a broad estimation of gross profit for a major portion of the weekly kill: revenue less cost of goods sold.

It does NOT account for operating costs (wages, salaries, administrative expenses, utilities, insurance, depreciation). Therefore, it is NOT a "net profit" number, albeit it's often referenced that way in the broader media.

Nevertheless, it's useful to return to the topic given the resurgent spike in packer margins resulting from market conditions around plant shutdowns due to COVID. This week's graph outlines the weekly live-to-cutout spread since January 2016 and also includes a 13-week moving average trendline.

Clearly, gross margins reached unprecedented levels during the initial COVID outbreak. At the time, the 13-week moving average surpassed \$1,200 per head—nearly double the levels we witnessed following the Tyson fire.

Since that time, gross margins have moderated; retreating back to around \$440 per head in July but have since gained back some ground and are now trending around \$550 per head.

Regardless of those recent gyrations, the past year has proven to be especially prosperous for the processing sector. That reality is best illustrated by Tyson's recent fourth-quarter and annual results (fiscal year ending Sept. 30). For example, the company reported record operating income for its beef segment of \$1.686 billion—52% (or \$579 million) better versus fiscal year 2019.

This discussion represents much of the foundation of debate occurring within the beef industry. The question that remains is whether or not this is a permanent shift in margin share between packers and cattle feeders.

But perhaps more important are the takeaways for producers following two black swan events in the span of about seven months:

1. Risk management is essential and has never been more important, and;
2. Nothing ever stays static: there are, and will continue to be, major adjustments occurring across the industry to establish coordinated, value-added systems in an effort to secure a greater share of available margin for producers.

Nevil Speer is based in Bowling Green, Ky. and serves as director of industry relations for Where Food Comes From (WFCF). The views and opinions expressed herein do not necessarily reflect those of WFCF or its shareholders. He can be reached at nspeer@wherefoodcomesfrom.com

2020 ACTION ITEM: STRATEGIC PLANNING FOR THE RANCH

Make the most of what's left of 2020 and make a concrete plan to get 2021 off to a strong start.

By: Amanda Radke

We have one month left in 2020, and for some, this has been a year to innovate, pivot, connect, serve, grow and thrive. For others, this has been a year of great challenges, setbacks, uncertainty, stress, anxiety, financial strain and hanging on for dear life just trying to survive.

I know most of us are anxious to say good riddance to 2020 — call it a wash and start fresh in 2021. However, before you throw in the towel on a tumultuous year, here's one to-do item that's absolutely worth your attention.

Related: How to better serve a family business

Creating a strong vision for the ranch or agricultural enterprise can be a challenge with so many moving parts. With great volatility in the markets, unpredictable weather patterns, huge capital risk and the always-changing dynamics of working alongside family, sticking to a plan seems to be a moving target.

What's more, life's day-to-day challenges and stressors can cause us to lose sight of our overall goals.

Related: Family farm bankruptcies up 8%

To truly have a strategic plan in place for the family business, all parties must be on the same page with a clearly communicated vision and well-defined roles for each family member to play in achieving that vision.

Sounds like a lofty task, right? And how many of us actually get around to creating and writing down a vision for the future?

While this may seem like the year to avoid conflict or tricky conversations, I urge you to dive right into this discussion with everyone involved in the family business. That's exactly what I will tell attendees at this week's KRose Marketing CattlemanU Virtual Webinar, where I will be speaking on this topic, so it's fitting that we address it here on the blog, as well.

Without question, we have faced unprecedented challenges in 2020. Whether you thrived or survived through it, I think we need to be asking ourselves this important question — how do I insulate the ranch and protect my family for

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2020 ACTION ITEM: STRATEGIC PLANNING FOR THE RANCH

when the next disaster strikes?

You know you need a plan, but how do you get started in creating one that all parties have readily available to use as a blueprint for operations? South Dakota State University (SDSU) makes this task a little bit easier with their resource titled, "Strategic and Scenario Planning in Ranching: Managing Risk in Dynamic Times."

This 45-page resource packet walks you through each step in creating the vision, determining strategies to achieve that vision, planning for various scenarios and how you'll respond to them in the future, putting the plan into action, measuring success and working alongside family members in the agricultural enterprise to achieve shared goals.

Created by SDSU's Extension Service and the King Ranch Institute for Ranch Management, this guide is great for families that are ready to strategically prepare for the future.

Here is an excerpt from the guide: "Without a step-by-step (strategic) plan and a chosen destination (or vision), it is virtually impossible to get where we want to go. Operating a ranch without a strategic plan is akin to traveling without a road map.

"Consider the parallel: Just as a trip itinerary includes a starting point and a destination, a strategic plan requires an assessment of current conditions and a vision of a desired future. Inventory is to determine both 'where you are' and 'where you are going.'"

Reference the planning guide here, and don't let 2020 pass you by without a strategic plan and vision in place to get 2021 off to a good start. We have one month left of this crazy year; let's try to make the most of it!

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

STOCKER PRODUCTION GAINS ECONOMIC IMPORTANCE

More producers rely more on stockers for annual income.

From: Industry Voice by Zoetis

Stocker production is taking on more emphasis and economic importance in operations over time, according to the latest BEEF National Stocker Survey (NSS), sponsored by Zoetis.

Keep in mind the term, stocker, is used to also denote backgrounding.

Compared to the previous NSS conducted in 2007, stocker production represents a larger portion of annual gross income. Overall, 46% of respondents derive 51% or more of their annual gross income from stockers, compared to 41% in 2007. More specifically, in 2020, 19% of respondents say stockers account for 76-100% of their annual gross income; 27% of respondents say it accounts for 51-75% of annual gross income.

As logic suggests, stocker contribution to annual gross income increases with operation size: 67% of operations with 1,000 head or more generate 51% or more of their annual gross income from stockers; 86% of operations with 2,500 head or more. Even so, stockers contribute 76-100% of annual gross income in just 47% of the operations with 2,500 head or more; 37% for operations with 1,000-2,499 head.

The percentage of gross annual income also increases with operator age, from 39% of those 44 and younger saying stockers account for 51% or more of their income to 50% of respondents aged 65 or older.

Most respondents run stocker cattle year round (57%), similar to the previous survey.

The percentage of those running stockers year round increases with operation size, from 44% for those with 1-199 head to 92% for operations with 2,500 head or more. Feedlot stockers (77%) and pure stockers (70%) are most likely to run year-round, versus 62% for whole cycle and 49% for cow-calf stocker.

For survey purposes, respondents were classified as:

Pure Stocker (PS)—those involved exclusively in stockering and backgrounding cattle.

Cow-calf Stocker (CCS)—those involved in both the cow-calf business as well as stockering and backgrounding cattle.

Feedlot Stocker (FS)—those involved in both stockering and feeding cattle.

Whole Cycle Stocker (WCS)—Operators involved in cow-calf, stocker and cattle feeding segments of the business.

On average, respondents are running more stockers over time, too.

Respondents marketed an estimated average of 753 head per year, between known marketings in 2015-2019, and expected marketings in 2020-21. Across those years, the estimated average increased from 728 head in 2015 to an estimated average of 790 head in 2021. Increased marketings also can be seen across both surveys. In 2007, respondents marketed an estimated average of 694 head per year, between known marketings in 2002-2006, and expected marketings in 2007-08.

For 2015-21, 35-36% marketed 200-499 head of stockers annually, compared to: 30-32% marketing 1-199 head each year; 17-18% marketing 500-999 head annually; 9-11% marketing 1,000-2,499 head each year; 1-3% marketing 2,500 head or more.

Increased retained ownership between surveys, as well as more focus on value-added management and marketing also point toward the growing economic importance of stocker production within enterprises.

As mentioned previously in Subtle shift in stocker operations, slightly more stocker operations retained ownership in some of their cattle through harvest: 54% in 2020, versus 49% in 2007. Of those who retain ownership, 28% of respondents say they retain ownership in 100% of their stocker cattle.

Finally, only 20% of respondents say they have an off-farm job, which was 6% fewer than in 2007.

As logic suggests, those with off-farm jobs decreases with age, from 36% for respondents 44 years old and younger to 14% for those 65-years and older.

Likewise, off-farm employment declines with the number of cattle, from 27% of respondents running 1-199 head to 10% for those running 2,500 head or more.

Fewer feedlot stockers (12%) and whole-cycle stockers (16%) say they have an off-farm job than other operation types: 19% for pure stockers and 22% for cow-calf stockers.

***BEEF Editor's note: BEEF completed analysis of the latest National Stocker Survey this fall. The first was done in 2007. They are the only national surveys to provide in-depth detail of stocker production, management and marketing. Both were conducted in order to gain more precise understanding of this diverse and critical industry sector.

GRATEFULNESS IN THE FACE OF ADVERSITY

This Thanksgiving, let's find the hidden blessings in the face of a challenging year.

By: Amanda Radke

Earlier this week, I watched the livestream footage of the ceremony featuring President Donald Trump and First Lady Melania Trump as they officially pardoned the Thanksgiving turkey, "Cob."

Feeling inspired, I have decided I will also pardon a turkey this year and forego the traditional poultry fare in favor of prime rib.

And while I'm very thankful for the homegrown beef on my plate, I'm even more thankful for the people I get to share a Thanksgiving meal with.

In November, the kids and I have tried to focus on practicing an attitude of gratitude. In one of our homeschool crafts, I instructed the kids to make turkeys by tracing their hands on construction paper and then writing things on each finger (feather) that they were thankful for this year.

Their responses included our family, Jesus, the ranch, our new puppy and living in America. My son added in hunting for good measure, and my daughter added her baby dolls to her list.

It was sweet to hear their thankful lists, and it inspired me to reflect on what I'm thankful for in 2020.

Without question, for many Americans and for people around the world, our burdens have been heavy and it can be hard to see the blessings during these challenging times.

However, when I look at some of the changes our family has experienced due to this pandemic, I realize that this year's blessings include spending more time together, enjoying the great outdoors, cutting out time-wasters and activities that were draining us each week and truly enjoying each other as we work alongside each other on the ranch.

Has this been a stressful, draining rollercoaster of a year? You bet! But if we choose to seek what's good and positive and beautiful, we will discover that there are plenty of shining lights that are balancing out the darkness we are experiencing.

One habit I've gotten into this year is, even on my busiest days, I force myself to pause and watch the sunset for a few minutes. I feel closer to God, closer to nature and more in tune with myself and the world around me. That might sound hokey, but that small habit has done wonders for my mental health and my feeling of purpose during a year when everything seems so uncertain.

This Thanksgiving may look a little bit different than what we are used to, but today, I urge you to find the blessings that have been brought into your life this year. It doesn't have to be big or grandeur. Even the most humble of gifts — your health, your family, your job or just keeping it together during a really rocky time — are worth celebrating and embracing.

Happy Thanksgiving from my ranch to yours! May you feel blessed, content, safe and renewed on this day and every day!

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