Cow Country Reporter

February 2024 Volume 16 Issue 2

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News from your CEO

February is still the shortest month of the year, however, this year is Leap Year, so we gain a day.

Cattle receipts at our local sale barns are historically light this time of year, but with sharply higher prices in January this trend could continue especially for slaughter cows. Easter is early this year, which means Lent will begin February 14th. The Lenten season usually means less consumption of beef. This trend today does not have the impact it has had in past years but demand will fall off. Demand for our good Louisiana calves will be good as supplies are lower than last year according to USDA, NASS Jan. 1, 2024 Cattle Inventory Report released on January 31, 2024. The report shows All Cattle and Calves down 2%, LA down 4%. All beef cows down 2%, LA. down 2%. All beef replacement heifers down 1%, LA. down 9%. All calves under 500 lbs. down 3%, LA. down 4%. So, keep those new-born calves alive and growing. More importantly, keep in touch with your marketing rep. for changes in the market.

Don't forget Valentine's Day. Enjoy the month!

Dave Foster, CEO

Peel: January Cattle Market Challenges

By: Derrell Peel - Oklahoma State University

The first few weeks of the New Year are always a challenge for cattle and beef markets. Whether it is January marketings of feeder cattle for tax purposes or post-holiday boxed beef pipeline issues, it always takes a couple of weeks to get a bead on cattle and beef markets in the new year. January 2024 has been particularly challenging with multiple winter storms disrupting feeder and fed cattle markets, as well as boxed beef markets.

With January 1 falling on a Monday, many Oklahoma auctions did not schedule sales the first week of the month. Most scheduled feeder sales occurred as planned the second week of January, but weather conditions and threats limited market demand and volumes. Most sales were cancelled the third week of January due to severe winter weather in the state. The combined Oklahoma auction report for January 19 showed a total feeder cattle volume of 1,694 head compared to 40,125 head for the same week one year ago. Some major auctions in Oklahoma have only had one sale so far in 2024 and icy conditions on the fourth Monday of January may impact some early week sales once again.

Cattle producers have been challenged with extended periods of sub-freezing weather that requires chopping ice and increased cattle feed requirements. Fortunately, most Oklahoma cattle entered the mid-January frigid weather with dry conditions and dry hair coats, which avoids some of the worst animal impacts. Some regions south and east of Oklahoma were not as lucky with rain preceding the freezing temperatures. It is also fortunate that the majority of cow-calf producers were not yet into the spring calving season. The forecast for late January is above-freezing temperatures but still cold and rainy which adversely impacts cattle.

Feedlots have been impacted by several winter storms starting with a storm in the central and northern plains after Christmas and another major storm in early January. Fed cattle performance is reduced and will be impacted for several weeks after storms. Fed cattle carcass weights are expected to decrease in the coming weeks as a result.

Boxed beef markets decreased the first week of January as retailers assessed holiday markets and sorted out post-holiday beef pipelines. However, the winter weather suspended some packing operations for a couple of days and boxed beef markets jumped in response to supply disruptions. From January 4 to January 17, Choice boxed beef price increased over $22/cwt. The current Choice boxed beef price is roughly $295/cwt. It will likely take another week or two to sort out both demand

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Peel: January Cattle Market Challenges

and supply conditions assuming no additional major disruptions.

The January Cattle on Feed report had no surprises with placements 96 percent of last year and marketings 99 percent of one year ago. The January 1 on-feed inventory was 102 percent of last year. The quarterly breakdown of steers and heifers in feedlots showed that the number of heifers on feed was the highest January 1 total in the data back to 1994.

Derrell Peel, OSU Extension livestock marketing specialist, discusses how temperature drops can impact many aspects of cattle production on Livestock Marketing segment of SunUpTV from January 13, 2024. https://www.youtube.com/watch?v=7PPtxYa86ns

Reviewing the January Cattle-on-Feed Report Ahead of this Week's Inventory Report

By: Kenny Burdine, University of Kentucky

January has brought a steady stream of reports for livestock market analysts to digest. This began with hay stocks the second week of the year and will culminate on January 31st, when USDA releases their inventory estimates for 2024. As I write this week's article two days ahead of that release, I wanted to quickly review what we learned from USDA's January Cattle on Feed Report, which came out on January 19th. Cattle on Feed estimates have always been significant, but even more so recently, as they were a major driver behind the market decrease that was seen in the fourth quarter of last year.

Total feedlot inventory was estimated at 11.9 million head. As has been the case since October, cattle on feed numbers continue to exceed year-ago levels. On its face, this has been surprising as the cowherd has been getting smaller for several years and the number of cattle outside of feedyards was thought to be relatively small in the second half of 2023. We previously discussed the high placement levels seen in September and October and the impact that had on feedlot inventories. I still think fall weather led to some early domestic placements, but increased live cattle imports can't be ignored. A sizeable increase in imports from Mexico was seen this fall with a good portion of them being larger cattle that may have been placed directly on feed. Placements have been nearer expectations the last couple of months, coming in at 4% below year-ago levels in the January report.

There is another factor worth mentioning when one examines total on-feed inventory. Slaughter weights were increasing counter-seasonally during the last couple months of last year. Cheaper feed in the 4th quarter was likely the driving factor, but this ultimately means that cattle were on feed for a longer period of time. This seems to be supported by increased estimates of cattle on feed over 90 and 120 days and also partially explains the higher feedlot inventories. Monthly on-feed estimates are only for feedlots with one-time capacity exceeding 1,000 head, so it will be interesting to compare this to the annual report on Wednesday.

Finally, I would mention the steer-heifer breakdown as of January 1, 2024, which is an estimate that is only made quarterly. The number of heifers on feed was higher than the last quarter and higher than January of 2023. The story is probably best told by the chart below. While heifers as a percent of on-feed inventory declined slightly in January, it remains just under 40%. During expansionary times, the percentage of heifers on feed tends to be in the low-mid 30%'s. A number near 40% does not suggest that heifer retention is ongoing and continues to suggest that expansion is not immediately visible on the nearby horizon. Now all eyes will turn to Wednesday's cattle inventory report, which will likely have longer-run implications.

What Are Replacement Heifers Worth in 2024

By: UNL BEEFWATCH

Not every cow is going to be profitable, even when calf prices are high. It is important to consider the quality of cows as well as their costs. Paying too much for good cows is as bad as paying little for horrible ones. Producers who intend to be profitable must consider closely the relationship of current and future costs, to current and future revenues, and cow longevity and productivity.

The first step in figuring out whether to buy or keep replacement heifers is to know what it costs to raise them, what it would cost to buy them, and have an educated idea of what they are expected to return over their lifetime.

The following analysis is our educated idea of what several of the breakeven points for replacement heifers might be on various types of operations. It is important to know your own numbers to make good decisions about buying or retaining replacement heifers.

This is the sixth annual beef cow replacement value forecast created by researchers and extension personnel at the University of Nebraska for the beef cattle industry. This baseline of beef heifer replacement values is intended as a starting point to help cattle producers as they decide to buy, sell or trade replacement cows.

These forecasts are derived from the set of complex interrelationships among the present and future costs, productivity and revenue of cows, calves and productive materials and assets (pasture, feed etc.), many of which are themselves forecasts. The information here is a guide, which users would be expected to modify, depending on their circumstances and expectations of future productivity, costs, and revenues. The forecasted price and cost variations were those created by the University of Missouri Food and Agriculture Policy Research Institute (FAPRI) as the current 10-year projections. These annual FAPRI changes were used to adjust the future expected costs of Nebraska producers starting with the current season, 2023.

Valuing replacement heifers

Selecting replacement heifers differs from ranch to ranch, but value for both retained and purchased replacements generally depends on:

- Longevity - the replacement heifer's ability to productively stay in the herd
- Productivity - both current and future expected difference between cost and revenue (calf price and production costs differences over the heifer's productive life)
- Genetic and phenotypical compatibility with herd mates (the animal conforms with the production

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system and performance goals)

- Operator goals and management style (heifer's contribution to the future of the ranch)
- Financial standing, specifically debt related to cow purchases.

These forecasts assume producers know two things about their operation:

1. Annual cost of production per cow. Authors used UNL's Cow Cost Cow-Q-Lator combined with Nebraska producer production information and real estate survey data to calculate three levels of costs, low, medium and high.
2. Three average levels of cow replacement rates, 14%, 20% and 28%. This is the percent of heifers needed each year to keep the herd at a constant size. This number is representative of the number of annually replaced culled or dead cows and is a practical and tractable measure of cow longevity.

The three annual costs of production for 2023 do not include calving rate, replacement cost, depreciation expense, or death loss. These variables are accounted for within the simulation itself. The 2023 annual production costs per cow were identified as, low of $931/cow, medium of $1007/cow, and high of $1080/cow. As stated, the values and costs were adjusted annually for 10 years within the simulation using FAPRI 2023 projections. Costs relate directly to the UNL Ag Economic Real Estate Report for 2023 state average with a low of $50.80/pair/month, median $61.0/pair/month, and high rate of $69.1/pair/month. These rates were averaged for eight USDA statistical districts in Nebraska. Winter rates were half of those charged in the summer. The costs of pasture ranged from about 38-43% of all costs and 65-68% of total feed costs, while feed costs ranged from 56% to nearly 60% of all costs.

Figuring a replacement heifer breakeven

It is impossible to anticipate and quantify all possible conditions in which replacement cows are purchased. To help mitigate this challenge three representative levels of production costs and three rates of herd replacement rates were used to create forecasts of replacement heifer breakeven value for the nine different scenarios. In this instance breakeven value is the average value in dollars that a cow purchase would equal the dollars returned by her during her life in the herd.

The nine forecasts are a result of an individual cow simulation for 25,000 purchased heifers are randomly bought, produce calves, and sold in the next 11 years. The biological productivity and animal size are a reflection of historical production information obtained at UNL's GSL facility.

The three cost scenarios were evaluated at 14%, 20%, and 28% annual herd replacement rates with three levels of costs, $931/head low, $1007/head medium and $1080/head high.

All heifers were purchased at an average value of $1,934.50/hd. Purchase value is not the breakeven value. The predictions are graphically depicted in Figure 2. As expected, the 14% replacement rate had the highest breakeven values, with $1524.64/hd., $1118.02/hd. and $715.51/hd. for the low, medium and high costs respectively. The herd with the 20% replacement rate, more typical, had breakeven values of $1302.20/hd., 986.07/hd. and 671.17/hd. for the low, medium, and high costs respectively. The highest level of replacement, 28%, not surprisingly, had the smallest breakeven values for each level of cost. At the low costs it was predicted that breakeven would be $1040.18/hd., the medium costs had a breakeven of $830.35/hd., with the high cost herd's breakeven was forecast to be $587.09/hd.

In all cases increasing productivity without altering costs resulted in greater revenue, which increased predicted profit making it possible to pay more for replacements. The accuracy of the forecast is dependent on how closely an operation's current and future productivity and revenue match those specified in the simulation.

Productivity changes include calving rates and calf growth rates among other important measures. Revenue changes also play a role in altering breakeven value. Demand and supply shifts that alter cattle prices also have an impact on replacement heifer breakeven value. Higher calf prices lead to higher breakeven values, while lower prices lead to lower breakeven values. Accurately forecasting these values leads to better forecasting cow's replacement values. An economically successful producer, on average, buys or raises replacement heifers for at least no more than what she returns in her lifetime and hopefully less.

Low cost, low replacement herds (14%) can afford higher-valued replacement heifers and replace capital faster in their operations (Table 1, below). When raising or purchasing replacement heifers, each heifer's value is based on her ability to stay in the herd and the producer's ability to manage that productivity, control costs, and use the market to their advantage. Applying these principles is key to making an operation more profitable and resilient.

A positive outcome in purchasing replacements over time comes down to the animal's ability to return as much or more value than was paid for her. This is only accomplished if the operation selects the right type of animals (animals suited to flourish under their management and care), at the right price and the right time.

Raising replacements does not make them free; in fact, it is important to know what they cost to raise and how they rate in value, relative to purchased animals. In Table 1 moving from right (28%) to left (14%), lower replacement rates mean a higher percentage of cows are older and have a longer productive life. As the longevity of a replacement cow increases, breakeven values increase, except when annual production costs exceed annual revenue, in which case owning cattle for that year becomes a liability. Also note from Table 1 that as costs decline breakeven values increase and annual profit increases, providing additional funds to pay off cow purchase costs.

The Cattle Market Cycle – How Long Will These Prices Last?

By: Mark Z. Johnson, Oklahoma State University Extension Beef Cattle Breeding Specialist

The complexity and dynamics of the beef industry can create financial opportunities for cow-calf operations willing to take a business approach to their decision-making process. The cattle cycle, often referred to in this newsletter, is the topic of my article this week. This cycle is repeated time after time and summarized as follows:

The cattle cycle reflects the impact that supply and demand has on cattle prices. When cow inventory is low the prices of calves and all age and weight categories of cattle will move higher and vice versa. At the onset of 2024, our national cow inventory is the lowest since the early 1960s and prices of calves, yearlings, fed cattle and cull cows are historically high. High profit potential exist for the cow-calf sector in 2024.

How Long Will This Last?

This is the question being asked and debated in early 2024. As of now there is little indication of a rising cow inventory in the near future, Why? Several factors are working against it, these include:

- High interest rates
- High numbers of cull cows marketed in 2023
- Persistence of drought in parts of the country
- Low hay and feed inventories relative to drought
- Age demographic of cattle producers who have liquidated cow inventory
- Little evidence of heifer retention

These factors, coupled with cow biology and the long term process and turning replacement heifers into cows, indicate a slow rebuild. Bottomline: The economic future looks bright for those in the cow-calf sector with inventory. The cow-calf sector serves as the initial source of product in the beef production chain. For producers who can cost-effectively manage their expense of maintaining a cow herd, the value of weaned calves should lead to excellent profit potential.

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