Drought in the U.S. Beef Industry

Segment-specific Problems and Solutions

The Problem

- Extended drought – peaked in 2008 and 2012
  - 81% of the U.S. experiencing drought at peak
  - Texas has $10 billion in agricultural losses (Kimery 2012)
  - Drought as the new normal
- Impacts of drought:
  - Decrease in crop yields
  - Record-high corn and hay prices
  - Reduction in grazing land
  - Increased production costs for beef producers

Response by Upstream Producers

Cow-Calf Producers and Stocker/Backgrounders

Option 1: Relocate herd/Lease land

- Pros
  - Maintain productivity of herd
  - Ensures future profits when sell cattle
  - Avoids rebuilding costs

- Cons
  - Costly to lease land
  - Costly to move cattle
  - Not a long-term solution

Response by Upstream Producers

Cow-Calf Producers and Stocker/Backgrounders

Option 2: Heavy Culling

- Pros
  - Reduces current operating costs with smaller herd
  - Reduces future operating costs
  - Avoids extensive rebuilding costs

- Cons
  - Reduced revenue in the future (fewer cattle to sell)
  - Higher tax liability
  - Some rebuilding costs

Response by Upstream Producers

Cow-Calf Producers and Stocker/Backgrounders

Option 3: Herd liquidation

- Pros
  - Increases revenue immediately
  - Reduces future operating costs
- Cons
  - Significant costs to rebuild
  - May not be able to re-enter industry

Response by Upstream Producers

Cow-Calf Producers Only

Option 4: Early Weaning/Selling Calves

- Pros
  - Reduced yearly operating costs
  - Increase future revenue (improved calving rates the next year
- Cons
  - Reduced revenue in current year
  - Some rebuilding costs

Pros

	Relocate/Lease Land	Heavy Culling	Herd Liquidation	Wean Early/Sell Calves
Increases Revenue		★	★	★
Increases Future Revenue	★			★
Reduces Operating Costs		★	★	★
Reduces Future Operating Costs		★	★	★
Avoids Rebuilding Costs	★			

Cons

	Relocate/ Lease Land	Heavy Culling	Herd Liquidation	Wean Early/Sell Calves
Immediate Costs	★			★
Future Costs		★	★	★
Leave Industry			★	
Tax Liability		★	★	★

Downstream Producers

Feedlots

Problems:

- Less available feed
  - Decreased production on farm, and less available off farm
- High feed costs
  - Available feed is more costly (as high as 300% increase)
- Fewer cattle available
  - Upstream producers culling or liquidating
- More health problems in dry weather
  - Dust causes respiratory problems

Downstream Producers

Feedlots

Solutions

- Utilize substitute feed
  - Distiller's grain, increased silage, protein additives
  - **OBSTACLES** – Distiller's grain not widely available
- Reduce herd size
  - Fewer cattle reduces feed expenses
  - **OBSTACLES** – Operating below full capacity reduces profits
- Source younger cattle, or alternative sources
  - Find ample supply to operate at full capacity
  - **OBSTACLES** – Unknown source of cattle may cause problems such as higher death loss

Downstream Producers

Feedlots

Problems:

- Smallest cattle herd in 50 years!
  - Fewer cattle available nationwide
  - Upstream culling and liquidation keeps current supply steady but reduces future supplies

Solutions:

- Forward contracting
- Long-term contracts with suppliers
- Branded programs to enroll suppliers

Long-term Implications

Closer relationships between packers and upstream producers, especially cow-calf producers

- Ensure adequate volume and quality of cattle

Disappearance of stocker-backgrounders

- More profitable for cow-calf producers to keep calves longer and feedlots to take feeder cattle younger

Increased consolidation at all segments

- Liquidation of herds to other operations
- Failed operations quickly purchased to maximize economies of scale