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AG News and Views

Originally published July 2015

ECONOMICS

Cost management keeps cow-calf production profitable

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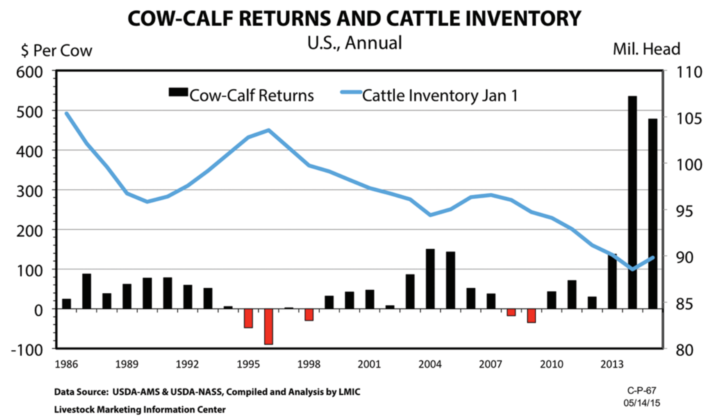
In the last 10 years, there has been dramatic volatility in the cattle and grain markets. This condition has forced producers to reevaluate how they go about doing business. Only a few years ago, corn prices had tripled and there were significant increases in the prices of fertilizer and fuel. While it would be great to think the price of grains, fertilizer and fuel could return to 2005 levels, that doesn't appear probable. In the last five years, the price of calves and cows has more than doubled, making it possible to remain profitable in the face of high input prices. The question is, how much longer will prices maintain these levels? These price levels and the fluctuation have made the prospect of making money in an agricultural business challenging.

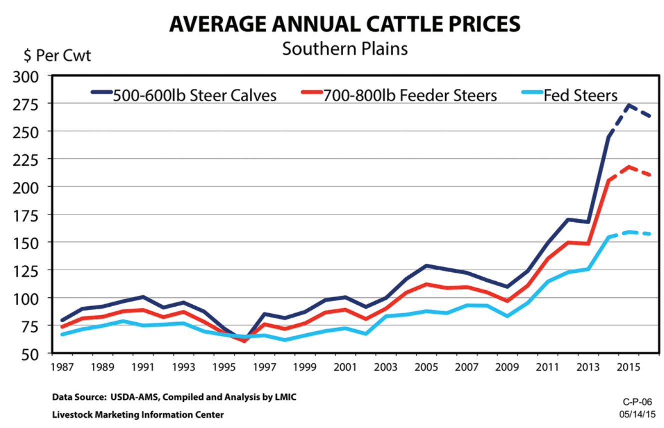
While the Livestock Marketing Information Center graph for 2015 shows average cow-calf producers have shown a positive return the last five years, there are still challenges ahead for the cow-calf producers. With increasing cow costs, cost of replacement females and lower calf prices at some point in the future, maintaining positive returns may be difficult.

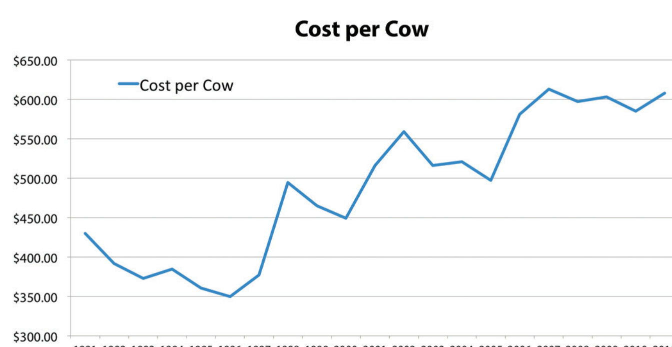
So what should a cow-calf producer do to operate now while planning ahead for lower calf prices?

First thing, determine the cost of production for the cow-calf enterprise and the breakeven for each segment of retained ownership. Second, determine ways to decrease operating costs. In this time of increased calf prices, most operations have had cow costs increase to levels that won't be profitable if calf prices return to pre-2011 levels.

To bring expenditures under control, carefully analyze each part of the operation to determine areas for improvement. For many operations, cow costs have risen to $600-plus per cow, with feed, fuel, fertilizer, depreciation and







labor driving much of the increase.

With cattle, three income factors primarily determine the profitability of producing calves: calf prices, and bred and cull animal prices. All three of these factors are primarily determined by the market. Cost of production, on the other hand, is under direct control of the manager. He/She will make the decisions that determine the inputs of the operation.

To be competitive and profitable in the long run, each operation needs to analyze the expenditures carefully, but this doesn't mean that all of the costs should be reduced. It just means to analyze all of the costs and be a very efficient producer.

Let us know if you have any questions about determining your specific cost of production. ■