Heifers and Expansion w Dr. Peel

[00:00:00] We'll see. Okay. Welcome back to the Extension Experience Podcast. I'm Dana Zook this week we are recording from the Alfalfa County OSU Extension Office here in Cherokee. I'm joined by Dr. Peel. Welcome, Dr. Peel.

Thank you. It's great to visit with you. Yes, it is. Yeah. So before we dive into what I'm sure most people expect economics, how was your summer?

It's been a really interesting, busy summer. Early in the summer, I actually helped a colleague of mine with a study abroad course. So we went to Scotland and Ireland with a dozen students. For the second year in a row. So that was, that was a great trip. Little, little tiring.

So there's a, there's a recovery period after that. And then of course, as you may, as you may know on campus we've been in the process of moving into a new ag hall at OSU in Stillwater. And so that move all happened in the last month. So it's just been absolutely crazy. And then of course, now school has started. We were moving in at the [00:01:00] same time we were trying to get ready to start classes.

And so it's just been very, very hectic lately. Well, yeah, I knew you went to Scotland, but I didn't know it was with a bunch of students. Oh, yeah.

Yeah. So we took a dozen students. We traveled around for about two weeks. We made a tour around Scotland and then ended up in Ireland. It was kind of a Plains trains and automobiles thing. it's a travel course, so we do travel. We cover a lot of, country and, different modes of travel.

We took several ferry trips, trains, buses. Yeah. So, pretty cool. Really neat though. I really enjoy it over there. Really green. It's very green. Beautiful country. Yeah. The Highlands of Scotland remind me again. great deal of where I grew up in Montana. Oh, that's cool. So there's a lot of similarities and, and that was a pleasant surprise when I got to go to the Highlands last year.

So I really, relate to it very well. It's beautiful. You feel at home. I do. That's very good. Well Dr. Peel and I just completed a heifer development and retention type meeting here in Cherokee, and it was, it [00:02:00] was a good meeting. I think , we presented some pretty interesting information.

I mean, at least you did, I don't know about me. No, it was both of us. And, one way to look at the audience was, I think they're kind of representative of what the industry is doing right now, which is looking at the unique situation that we're in. From the standpoint of the cattle cycle and all of that and, and the market signals we're getting now, but they're taking a very kind of cautious approach to it, a very, as you said, thoughtful, I think is a good way to say it and and that was kind of reflected in this crowd.

Yeah. I'm glad you said that. That kind of makes sense to me too. So we thought we would just share some of our insights from the discussion. Some insight into herd building, the economics of herd building, which starts with heifer retention. Like you said today, it's not going to start unless we retain some females.

Right. Yeah, this has been a unique one and I've spent quite a bit of time because of where we are and what we continue to do. We, we aren't seeing some things or we haven't seen some [00:03:00] things, some signs of, for example, our heifer retention and early signs of trying to rebuild the herd, even though numbers are small, there's all those superlatives about how small it is, but the bottom line is the beef cattle industry, the cattle industry in total in the U. S. is at multi decade lows by any measure, and so we haven't seen those signs. Of, heifer retention. So I've spent a lot of time kind of analyzing the last couple of cattle cycles we've been through to see what's similar and what's different about this one. And, , obviously there's some common factors in all of these and, and yet there's some very unique differences this time that I think explain why it's going to be a little different path for the next few years in this industry.

So let's give the listeners some kind of insight. So we're talking like we're, you're really doing a lot of comparison between 2012, 2013, 2014, and now,

you've reflected back on other cattle cycles, but looking at the drought prior to that and the drought [00:04:00] prior to this situation.

It's a situation, but we're looking at those because it's on the forefront of producers minds. Yeah, it is. Drought was a driver in both of them, although there were differences in how that drought impacted the industry that are part of the unique situation now, but nevertheless, drought made us liquidate the industry and liquidate herds in the U. S. smaller than we intended to be in both cases. So we're even smaller now than we were at the low point in 2014 after the drought of 2011, 12, and 13. And so we're even smaller now. And again, it's drought the last three years that has really pushed us to that level.

So that's the similarity. That's the setup and producers are looking at, and I have a chart that shows prices. We had extremely high prices, record high for the time in 2014 and 15 that lasted about two years. And then it, sort of came back down to, to more, average levels, if you will.

And that's what producers are looking [00:05:00] at now. That's also part of the issue now is we've got record high prices again, but , are we near the peak yet? Right. And maybe more importantly, how long is it going to last? That's a big factor in whether producers are willing to make this investment in heifers to rebuild the herd.

So let's talk just, big picture beef supply. So talk about some of the things that you see going on with the beef industry. Like you mentioned, let's start with lowest calf numbers. Yeah, let's tick off those and then we'll . So, you know, again, there's a bunch of measures.

They all tell you the same thing, but total cattle inventory in the country. So all cattle and calves the January 1, 2024 inventory was the lowest since 1951. The beef cow herd as a subset of that is at the lowest inventory since 1961. The beef calf crop And I just calculated this the other day.

I hadn't actually looked at it. I had to go back and estimate cause my data didn't go back far enough, but I was able to [00:06:00] estimate what the calf crop probably was. My estimate of the 2024 calf crop to be validated later by USDA is that it's probably the lowest since about 1941.

Wow. And the number of beef replacement heifers on January 1 of 2024 was the lowest since 1950. So many of those even exceed my lifetime , we haven't seen this in terms of, of, of pure numbers, the inventory levels. Yeah. We just haven't seen this before.

So that is the pool of soup here. That's, creating the environment for what we're seeing in the, in the pricing and. Expansion where we are is from that standpoint. Yeah, so you know, the, the, the numbers have gotten down. Of course, when you start liquidation, just to back up a little bit , the nature of the beef industry one of the things that makes it unique is that we get calves one at a time.

And so it's a one for one trade off. If you have too [00:07:00] many, or if you're forced to liquidate. Maybe we didn't want to get smaller, but we were forced to by drought, then in the short run, beef production actually goes up because you're eating that inventory, right? So we saw beef production go up to a peak, an all time record level of beef production in the U. S. in 2022, which is probably two years longer than it would have had the drought not been forcing us to liquidate cattle. But, but as that happens sooner or later, even though you're eating inventory, your inventory is getting smaller. And so, beef production started to fall in 2023. It's down some in 2024.

It'll be down in 2025 and probably 2026 as well. So beef production is declining and all of that on the basis of these small inventory numbers has led to then a rapid run up in cattle prices as well as beef prices in the last two years in particular.

So , I talked to Scott Clawson back in May and it seems like. For a [00:08:00] 600 pound number one steer, we've kind of mediated talk us, to us about what prices have done over the summer and what you think the situation might be going into the fall. I know you don't like to put out prices or anything, but it seems they've been ticking along pretty high and then we might talk about some of these Volatility things that have happened. Yeah, we've had some volatility and we're probably you know subject to that So we should come back and talk about that.

But you know over the summer it's been kind of a sideways market Some of that is just kind of the time of year. I call it the summer doldrums. You know, we sort of mark time to get through the heat of the summer. We, have had some external factors that have pushed the market a little bit around.

But, underneath it all we've still got, These very tight fundamentals and when you look at this long term price chart Yeah, we're at record levels or very close to them sometime this year We've been at record levels for calves for feeder cattle for fed cattle but those are not the peak level that will happen in [00:09:00] this thing because Even though the pool of feeder cattle out there is getting smaller We haven't started this heifer retention.

That's the whole subject here. And so once we do, then we're going to make that tight supply substantially tighter yet. And that will be the thing that puts the peak in prices for the foreseeable future, and that's, that's out there not in 2024 and maybe not even in 2025 when we get to that point.

So what you're saying is right now we're eating our heifers.

We have been eating our, our females, right. Yep. Yep. And that eventually when we, when we decide to breed them, right, like you said, that, that is going to pull out of there. , I mean, here's a non economics type person, like getting a light bulb.

Here's my light bulb, Dr. Peel, it's going on, but that's interesting. So some people just think it's crazy. Now they can't believe that it would be any higher. Well, that's right. And so I, you know I get lots of [00:10:00] questions about just how high can it go, particularly from a consumer's beef standpoint. But when I show that long term price chart and you see the peak in prices that happened in late 2014, 2015, we had about two years of high prices.

And I point out to producers, two things. One is that. That peak happened a year to a year and a half after we started herd expansion. So it's, it's that heifer retention that squeezes that feeder supply down to its tightest level. We haven't started that yet. So, so the highest prices are yet ahead of us.

At some point in this thing and the other thing is the way the way the situation has evolved this time is I I think there's there's almost no doubt that this one won't be limited to two years In fact, we've had two years of high prices 2023 was pretty high 2024 is high and we haven't seen the highest prices yet.

So we're talking about you know, I don't know, three to five years of [00:11:00] elevated prices more than likely because of the situation we're in, it's going to take us a lot longer this time , to build that herd back to a level that would peak out prices and push them back down again.

Okay. So, and we're jumping all over the place here, but so, You can see that we have not started expanding yet because of what?

Indicators what indicators are you looking at?

Yeah, coming into the year Obviously our direct measures of herd expansion is the basically the January 1 inventory numbers and of course NASS opted to not do the the mid year numbers which gives us a check along the way, but it's really those January numbers that are the complete picture. You know, again, we already went through how low those numbers were. So we started the year with low numbers. And then along the way, our best measure is, is actually to monitor heifer slaughter in terms of, of what's going on with the heifers. And quarterly, we get an estimate of how many heifers are in the feedlot.

So we can look at heifers [00:12:00] as a percent of that feedlot inventory. That matches the slaughter numbers really. So, you know, both of those numbers are still elevated through the year. The July 1 quarterly number said we had nearly 40 percent of our feedlot inventories as still heifers.

And the heifer slaughter has continued at a high pace. Okay, now the thing about slaughter numbers that's a limitation that's sort of frustrating in this situation because we're really trying to key into when, when do we start heifer retention is that the slaughter number is going to be six to eight months after the fact, right?

Because a producer that decides not to sell a heifer And place her in the feedlot for feeding, it'll be six to eight months later before she doesn't show up as heifer slaughter. So that's, that's one of the, the limitations there is there's a lag between what producers might be doing and what we see ultimately in that slaughter data.

So we're probably going to go till next January. of 2025 till we get the annual inventory numbers to see what really happened [00:13:00] in 2024. But the numbers tell me that the herd has continued to get smaller in 2024. So we haven't put the bottom in this thing yet, let alone start talking about herd expansion yet.

2025 is the earliest opportunity to be what I call the zero year from which we might do herd expansion. And, we won't even know that for some time after to whether that really is the low.

So what other things in our pot of soup here, might keep producers from retaining more heifers or, or in general, what sort of things in the beef industry have caused volatility?

So most of the volatility is coming from external things, outside forces, right? We've talked about these supply fundamentals are very, very strong and supportive to the beef industry. We're at record levels. That's very a very strong internal situation.

But external markets have an impact. So, really we're talking about it comes back through futures a lot of times. So the live and feeder cattle futures but it's, [00:14:00] it's things like stock market or macroeconomic concerns. You know, boy, if you take off the list of things that cause volatility in the market, right?

So we've got us macroeconomic jitters, we've got global macroeconomic jitters. We've got geopolitical events, a couple of wars that add volatility. And then there's this little election thing that's coming up in the U. S. here in November.

All of which adds volatility. And it's not so much, you know, any particular, necessarily any particular direction.

It's just uncertainty. Markets don't really like uncertainty. So those jitters get reflected in futures markets. And they do have an impact at least for a period of time on, on cash markets. And so, you know, even though those supply fundamentals are very strong and, and frankly, I'm as bullish as I've ever been on prices in the cattle industry, you have to recognize that that volatility is a very real risk because at some point in time, every set of cattle has got a an end point.

[00:15:00] Whether it's feeder cattle, or fed cattle, or you know, whatever, depending on what kind of production system you're talking about, you've got an end point. You may have some flexibility to adjust that end point for a while, but eventually you run out of runway and you've got to do something. If you get caught in one of these short term volatility things, it can really hurt you.

Even though the underlying market is still very, very strong. So risk management becomes an important consideration all the time, even though we're at high levels and expecting to go even higher.

Yeah. It could be that one particular sale day. That's exactly. Yeah. So, managing. Just for that, maybe low that one day, maybe not a, a worldwide thing, but something happened and we're all freaked out for 24 hours, but you sold your cattle on those days.

Yeah. If that happens to be the day that you, you are selling or you committed your, you know, you have to make a decision. It can, it can really hurt you and really make. The rest of this sort of seem [00:16:00] irrelevant So, that risk is very real and it's something that producers must keep in mind is you know Short term volatility is just that it's probably not going to impact the overall market for a long period of time But if you have to do something in that short period, then you need to protect that.

Yeah. We talked with Scott a little bit about livestock risk protection, LRP, but I think that is just a great tool. Yeah. For our producers. You know, we've got a number of tools. You can use the futures market directly in terms of hedging or options. You can use LRP sometimes contracting is a way to take some of that price risk out Production flexibility is an important part of that.

So to the extent that you have the ability to , not have to sell this week. If you've got two, three, four weeks, a lot of this short run volatility sometimes might work its way out and, not be a problem. But again, you can only push that envelope so far. Most of the time from a production standpoint, then you got to do something.

Yeah. So you have to look at those tools and figure out the best ways to take care of that risk that you're [00:17:00] exposed to.

So that, that kind of speaks to just the direct producer. Yeah. On the farm. I'm trying to think back to what producers are really looking at, on their small operation and when the question of expansion comes to knock on their door, what small things , will they need to consider, do you have any thoughts on that?

Well, , I think one of the, just the environment you're in, I mean, obviously drought is what got us here. In terms of the overall inventory situation and the fact that we really don't have a pipeline of heifers right now from which to begin expansion. For individual producers where are you at in that process?

Do you still have drought? Are you barely out of drought and not recovered from the standpoint of your forage resources? Are you recovered financially from the impacts of that drought? And what's your expectation for the future? I sit in a lot [00:18:00] of meetings and the The climatologists are all pretty much in agreement that la nina is rebuilding here in the last part of the last half of 2024 and so For the Southern Plains, at least, Central and Southern Plains, the threat of re emerging, redeveloping drought conditions, is, is very much on producers minds as well it should be.

So that tempers any temptation they might have to, to really get aggressive about herd expansion, because they're either you know, they're either not fully recovered and not able to restock, or they're just not really willing to jump out there and, and expose themselves. From the standpoint of the risk of forage and it makes good sense.

And then of course, , so on top of all that, then we've got a very different financial environment compared to the, the expansion that happened 10 years ago, roughly. Interest rates are a lot higher, and that one was short lived. The two years of high prices wasn't enough to pay for those real expensive bred heifers and bred cows, and, and [00:19:00] producers remember that, as well they should.

So producers are being more cautious from that standpoint, lenders are being more cautious. They're not quite as eager to jump out there. And that's part of the story now, is that I'm convinced that this time it won't be limited to a two year high price thing. I think we do have more time, but people have to sort of figure that out.

And accept that and make their expectations accordingly. Yeah. It's a lot. It's a lot of stuff and it all adds up to the fact that, again we find ourselves smaller than we need to be. Mm-Hmm. . And it's gonna be a really slow. More deliberate process. Even if mother nature doesn't throw new problems at us.

And if, mother nature does throw new drought issues at us, then that just will keep prolonging it even longer. So I think we're in an extended period here where it's going to be a very well, the bottom line for producers is we're going to be in an elevated price environment. [00:20:00] For, you know, several years at a minimum here to, to get to a point where we, eventually we'll respond to those market signals, right?

We'll increase product, you know, we'll produce our way back into lower prices. That's what, that's the way markets work. We'll eventually, tear up our own playhouse by producing enough to, to the lower prices. But I think under the best of circumstances, that's, that's several years away.

Well. , if we think of a glass half full, Derrell there are good prices. And if we decide to retain heifers from our own herd, we, we have to know that. , we're forecasted to be higher prices than we had been maybe in the past, with that last cycle. So that's great.

That looks, that's kind of a rosier picture for people who think, Oh, I don't know about retaining heifers when they're worth so much. That's the thing. They're not free when they come from your herd, right? Oh, yeah. No, that's right. What is that economic term? That's opportunity cost. Yeah. Right. So yeah, yeah.

And that's the dilemma that producers face every time we go through this, is that, wow, they're [00:21:00] worth a lot if I sell them today. That's going into that feeding side. Yes. But but on the other hand, it is my expectations about future profitability of retaining them for, for future production over multiple years.

Is that enough to offset that? And, and it's pretty clear from what the industry is doing that we haven't tipped that yet. You know, we haven't collectively gotten to the point where producers are convinced that it's worth the investment for the future. They're taking advantage of current markets, but but this will continue until such time as it does tip.

Right. We got it. The market will keep, you know, I mean, the prices will keep going up as we get smaller and smaller until such time as, wow, we need to keep those. So individual producers have to figure that out and figure out, if you are going to do it, my message today to producers was you probably want to do it sooner rather than later.

I think you have time. But you probably want to get started because if you [00:22:00] do wait, you know, in every cattle cycle, you don't want to be the last guy that bought high price cows or heifers, you know, because you do get caught right before that price does go down and that'll happen again. But like I said, I think it's a ways down the road.

I think we've got time to do things. But the longer you wait. to be the last guy to make that you know, sort of get on the bandwagon, if you will, then I think the risks go up for you that that in fact, it won't turn out maybe too well for you. Well, this has been a great discussion. I mean, it's great.

Like that is just the long and the short of it. I mean, it's kind of a big. picture deal. We got a lot going on. There is a lot going on. The more I study previous cattle cycles and compare and contrast the conditions now, the more I realize this is a really unique situation. The industry has had cattle cycles for 130 years.

And yet they're all a little bit different and this one I think is particularly unique compared to the last couple that people would [00:23:00] remember. Yeah. Well, we've given them a lot to chew on, Derrell this might have to be a conversation we come back to, maybe in I think we'll need to update this. After January 1st?

Or I don't know what time, like That probably would be a good time, actually, if we think about after we actually get some new numbers and see where we're at going into 2025 then we'll be able to update Yeah. The timeline and, and talk about this again. That'd be great. It's a date. Well, listeners, thank you for joining us today.

We'll have some information in the show notes. Of course, you know how to get hold of Dr. Peel. I'm Dana Zook. Subscribe to Cow Calf Corner, right? We always put that down. Yep. That's a great weekly update from Dr. Peel and many other specialists on what's going on in the cattle industry.

So with that. Have a great day and we'll talk to you next time.